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ABSTRACT

This document reports on two days of congressional hearings held to examine educational budgetary issues for fiscal year 1993 and beyond. The statements of the following persons are included in the proceedings: Gordon M. Ambach, Council of Chief State School Officers and Committee for Economic Development; Hon. William E. Brock, Secretary's Commission on Achieving Necessary Skills, Department of Labor; Nancy Coolidge, Office of the President, University of California; Charlotte J. Fraas, Congressional Research Service; Sandra Kessler Hamburg, Committee for Economic Development; D. Bruce Johnstone, State University of New York (SUNY); Roberts T. Jones, Department of Labor; Donald J. Nolan, New York State Education Department, representing State Higher Education Executive Officers Association; Hon. Ted Sanders, Department of Education (accompanied by Sally H. Christensen, Director of Budget Services, and Bruno Manno, Acting Assistant Secretary for the Office of Educational Research and Improvement). Prepared statements submitted by these witnesses and others are also included. (DB)

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ELEMENTARY, SECONDARY, AND HIGHER EDUCATION

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

JULY 24 AND 25, 1991

Printed for the use of the Committee on the Budget

Serial No. 102-23

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ELEMENTARY, SECONDARY, AND HIGHER EDUCATION

WEDNESDAY, JULY 24, 1991

House of Representatives,
Committee on the Budget,
Washington, DC.

The Committee met, pursuant to notice, at 9:40 a.m., in room 210, Cannon House Office Building, Hon. Leon E. Panetta, Chairman, presiding.

The **Chairman**. The House Committee on the Budget is in session for the purpose of a hearing on elementary and secondary education.

This hearing, like others that we have conducted over the past 2 months, is basically focusing on an examination of budgetary issues for fiscal year 1993 and beyond to try to give us guidance and lay some groundwork for what the budget resolutions should look like in the future. The hearing tomorrow will be on higher education, but we think that education, both elementary, secondary, and higher education, are crucial in terms of the future of this country. No issue is more important to our future than education and the investment that must be made in our most important resource, which is our children.

Developing a strategy for the improvement of our education system is central to our effort to rebuild our productivity, to rebuild our economy, and to try to win back our ability to compete in a world that is approaching the 21st century. Our children are our best hope for that century, and we have to do better by them.

How do we do that? The President has captured the spirit of the need in the America 2000 title given to education reforms that he announced in April. But he has put very little money and very few resources behind that title. The President asked for $690 million to finance education reform but requested three times as much for the manned space station. In some cases, the President would take money from already proven programs, such as compensatory education, and overall the President's education request fell short of keeping up with inflation.

The America 2000 strategy focuses on the setting of national education goals with rewards to schools and students that excel in national testing, on school choice by parents, and on the creation, with corporate financial support, of at least 535 new American schools to demonstrate the application of improved education techniques.

The strategy, however, raises both budgetary and policy questions. One big question is: What does it do for the disadvantaged student? School choice and the creation of model new American schools would appear to favor students well along on the learning curve. But what of the many other students whose progress is being held back by handicaps, such as language barriers, poverty, or health care problems?

For instance, in my own State of California, one in four school children now lives in a home where English is not the primary language. More than a quarter of a million immigrants are settling in California every year.

One answer may lie in the testimony of a member of our witness panel who will tell us about a recent report by the Committee on Economic Development. It suggests redefining education as a process that begins at birth and encompasses all aspects of a child's development, including physical, social, emotional, and learning growth.

We will also hear a proposal for a dedicated tax to begin now the reform of the schools most in need of reform—somewhat the reverse of the President's proposal. The idea of a dedicated tax I think is interesting and one that we need to think about, because I frankly think that as we approach this next century, in order to get people in this country to make a commitment with regard to their taxes, they want to be convinced that it is dedicated to a specific purpose. And certainly education seems to me to be one of those key purposes that we need to invest in for the future.

I have a feeling that Americans will support reasonable tax increases if they know that it is going for a good purpose. A dedicated tax may well be the revenue approach of the future.

Our panelists are Gordon Ambach, who is Executive Director of the Council of Chief State School Officers; and Sandra Kessler Hamburg, who is Vice President and Director of Education Studies for the Committee for Economic Development.

Following the testimony of our panelists, we will hear more on the year 2000 strategy from Dr. Ted Sanders, who is the Under Secretary and Chief Financial Officer of the U.S. Department of Education.

I want to thank all of our witnesses for being here. We do appreciate your taking the time to come here because this is an extremely important centerpiece, if you will, for our attention in terms of future budget resolutions. There hasn't been a budget resolution that I have worked on in which education has not been a key issue. And I think that is going to continue to remain the case, particularly as we look at where America's role is in the next century.

So, with that, we again welcome you here. Your statements will be made part of the record, and you can read from them or summarize them as you wish.

Mr. Ambach.

STATEMENT OF GORDON M. AMBACH, EXECUTIVE DIRECTOR, COUNCIL OF CHIEF STATE SCHOOL OFFICERS; COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. AMBACH. Thank you very kindly, Mr. Chairman, Congressman Kildee, and Congressman Beilenson. It is a great privilege for me to be with you.

The CHAIRMAN. Congressman Huckaby.

Mr. AMBACH. I beg your pardon, sir. My listing was wrong in the order. Apologies to you, sir.

Thank you very kindly for your opening statement, Mr. Chairman. I am in complete agreement with the statements that you have made, and I think that the presentation I have before you is reflective of the concerns that you have expressed. I will not be dwelling particularly on early childhood education this morning, but let me make a point before my colleague does speak particularly to the CED report.

I served as Commissioner of Education for the State of New York for some 10 years and before that as the Executive Deputy Commissioner. It was my privilege in the year 1969 to write a position paper for the Board of Regents of the State of New York which put them in a position of arguing that every 3- and 4-year-old in that State who was economically disadvantaged ought to have the advantage of a prekindergarten education at public expense. I am sad to say that that has not come to pass, but I express this because I want you to know how much I agree with your thought of the importance of early childhood education.

This morning, however, I want to concentrate on certain other aspects that you have requested I speak to you about. I provided a rather voluminous testimony, a cover statement, and then four attachments, each of which is responsive to one part of the questions in your letter having to do with our proposal for a major initiative in the 1990's, America 21; our proposals having to do with testing; our proposals having to do with a dedicated tax, as you have just referred to; and a comment about recent reports that we have made on the conditions of education in the United States look at State by State.

I would prefer, Mr. Chairman and Members of the Committee, that all of these items be placed in the record. I do not plan to read from those statements this morning. I would far rather speak and start our conversation by providing you with an overview of what I think to be the major national issues in education for this decade. And I do so in the context of advice on how you do shape the budgets for 1993 and for the balance of this decade.

My statement has started with two specific recommendations. I am going to come back to those because I would rather begin with the context for making Federal decisions in education over this decade. Why is it that we should be concerned about an increased Federal role? And I have advanced two sets of points: one having to do with the factors toward nationalization of the educational enterprise in this country, and the second is a reminder to all of us as to what the Federal role has been in education in the course of these last two centuries.

It is not my purpose to bore you with a lengthy historical record, but I think it is very important, as we look at the 1990's, to think about some key events that have taken place in this Nation's history which have built a Federal role for education and on which we should build our programs for the 1990's.

Now, if we were gathering 2 years ago on July 24, 1989, there would have been no national goals for education. Charlottesville would not even have been convened. There was hardly any discussion whatsoever in this country about national testing or a system of national testing. And, indeed, there was not all that much discussion about national strategies for change or reform in education. Clearly there were lots of laws on the books at the Federal level and much concern about education, but it was not cast in the same set of terms.

Now, what has been happening that has led us in these past 2 years to such an intense consideration of national goals and a consideration of national testing and national strategies? There are lots of factors that have pushed us in that direction. You have mentioned a couple, Mr. Chairman. Clearly the issue of international economic competition has been right up at the front, and the knowledge that if we do not have our students prepared to work harder, the work will go overseas; that, in fact, our economy will slide, we will not be able to keep up the level of affluence unless we have a work force that is truly in international competition.

A second factor has to do with our position with respect to security. We sent one armed forces to the Persian Gulf, not 50 from the several States. We deal with the issue of security on the basis of expecting that our troops have a commonality of language, of terms, of understanding, of communication, of technological systems that are extraordinarily sophisticated. And we, indeed, have the feeling that there has to be some nationwide or national sense of standard in that direction.

Third, we have the factor of population mobility which has been increasing in this country with the expectation that when families move from State to State, they can expect that there is going to be a continuation of education for their children, that there is a common kind of education that can be followed.

Fourth, the issue of equality of opportunity across States, and I would point out that many of the Federal acts, particularly since the 1960's, have focused on trying to provide a certain equalization of opportunity among the States.

The next is the link of education policy with health or social service strategies. Much of the policymaking in this country in the areas of health and social services is, in fact, Federal. And as we recognize that education must be linked much more closely to health and social services, there is a natural tendency to think more about national education policy related to health and social services. I would give you two examples of that fairly recently. One is the development of the Family Support Act—a welfare, if you will. In fact, it is an education bill. It relies upon the requirements that there shall be education and training for those who are recipients in order to become independent. Now, that has forced the concern for national strategy in education as well as in social services.

The debates most recently on child care are another example of connecting health, social services, health, indeed, and education with respect to national kinds of strategies.

The sixth is a recognition of the commonality of the education program across our country. As a Federal Nation and with a sense of decentralization of decisionmaking to States and localities, there is a lot of protected area by way of setting policies and keeping things somewhat different among the States and localities. The fact of the matter is that if you look across the country from one State to the next, you will find very common use of text, of materials. You will find very common use of various tests. You will find use of Carnegie units and standards and so on. And we are seeing—indeed admitting—that there is much more commonality in the system across the land than there are differences.

That has led to a very important point with respect to putting together scarce resources in order to get particular jobs done; that it is better to do it in some cases on a one-shot or national nationwide basis than 50 times over. Now, the States are coming to recognize this and, indeed, are banding together in more and more ways to share resources and talents to get things done. It is clearly a nationalizing influence in education.

Finally, I would point out that with the principal responsibility for education which is at the State level, recognizing that there is always the necessity for incentives and, indeed, prods to be provided in order to change, there is a tendency to move to the Federal level for incentives for various kinds of actions that will assist or, I say bluntly, sometimes prod the States into taking different actions.

Now, those factors are coming together and have come together to bring us national goals for education, concerns for national testing, and, indeed, concerns about national strategies. Now, the context in the 1990's is different by way of what should be done with Federal programing.

I mentioned a few moments ago that it might be useful for us to take a quick travel back through some of the major events in this country in two centuries where the Federal Government has intervened in education, and we start in the beginning. In the Northwest Ordinance with the dedication of certain tracts of land for education, about all the Federal Government had to provide at that point, there was a clear recognition that in the move to the West there should be a provision of common public education through the use and incentive of a certain Federal activity.

If you jump over into the 19th century, in the latter part of that century, with the creation of the land grant colleges and universities, an act which was small in its beginning but has led, with Federal initiative, to one of the most extraordinary developments in education this world has ever seen: The growth of the full public university system across this country. That was done out of Federal initiative in the latter part of the 19th century. And it was done for the purpose of assuring that we would take advantage of the technological advances, apply them to agricultural, apply them to industry, apply them to business. And it worked, and it has worked in the end of that century and through the better part of this one.

If you move from there to the period of World War I, the Federal actions taken at that point had to do with the creation of the Vocational Education Act and the Vocational Rehabilitation Act. The Rehab Act was directly related to assistance of the disabled from the war. The Vocational Education Act was put in place because that is exactly the time that Turner was developing mass production in this country, and we needed a better equipped workforce to be able to operate our plants. And so the Federal Government intervened with the Vocational Education Act.

Skip into the Depression years, and through things like WPA, child care programs, various support programs for teaching, there was clearly a set of Federal initiatives, partly to recover from the Depression but partly to try to beef up the capacity of the education system so that there would be a strength in education in the country.

Incidentally, in the 1930's in this country, about 33 percent of our people actually graduated from high school. We tend to forget how far that has come. It was about 10 percent in 1910, all the way up to 33 percent in the 1930's. It is now approximately 75 percent on regular graduation; indeed, when you add in GED's, it is now pushed up pretty close to 86 or 88 percent in this country.

But back to the story line. From the Depression, if you think then into the 1940's, the major intervention in education in the 1940's was the GI bill, probably the single most important action ever taken by the Federal Government in support of colleges and universities because it opened up a vast opportunity for education through that means.

Indeed, one other crossover recollection: In 1952, the Federal Government spent as much money for education as it spent for health. Just about the same. Why? Because of the GI bill at that point. That is clearly not the case today. There is an incredible difference of the way in which those programs have grown.

In the 1950's, it was in 1958 that we had the National Defense Education Act. Recall it came right after Sputnik. It came with the concern, an international competitive concern that the Russians were moving ahead of us in space and that we had to beef up mathematics and science, we had to find ways to support teachers in elementary and secondary education, subsidize their education, reward them for staying in education and so on.

You move from 1958 to the 1960's, and the midpart of the 1960's, a whole cluster of acts: The Elementary and Secondary Education Act, the Higher Education Facilities Act, the Higher Education Act, Library Services and Construction Act, Manpower Development and Training Act, which was the predecessor of CETA and the predecessor of JTPA, Head Start, and even some other acts, all clustered at that point.

Their focus was on equity. Their focus was on the provision of opportunities for those who were economically disadvantaged in order to gain success in education. That was filled out in the 1970's with the Handicapped Education Act, education for all handicapped children.

Now, if you think from the mid-1970's to the present time, although there have been reauthorizations of these various statutes, in effect the purposes have remained pretty constant. There have been adjustments made in terms of volume and in terms of the nature of the assistance, but the purposes have remained really quite constant.

Now, all of that brings me to this decade, to the 1990's, and the issue is: What is left? Are we in a circumstance where it is in part the building out of the promises in many of those acts which have not been fully met, as you have indicated, Mr. Chairman. Still only 50, 55, 60 percent of the children eligible for Chapter I are receiving those services. Still the Federal part of the Handicapped Act is only paying out at 8 percent while the promise was at 40 percent when it was initially put in place. Still we are behind with respect to keeping up on Pell grants and so on. There are very important things to be done there to fulfill those promises.

But there is another challenge. The challenge is to help from the Federal level for system change, for institutional change. And although the components of doing that have been a part of the Federal array of activities in the past, they have never really been put together in the way in which they must be put together now. They can be put together in connection with a thrust for achieving the national goals. Indeed, if stating the national goals has any purpose whatsoever, it should be to orchestrate; it should be to rally different kinds of support across this country, including Federal support, in order to achieve them.

Now, last year—Congressman Kildee can remember this very, very intimately—there was a development of an act called the Excellent and Equity in Education Act of 1990. It was crafted in a bipartisan way in the Committee. It was moved through, and, indeed, it was passed not only once but passed twice by the House of Representatives in October of last year. It would have endorsed the national goals for education. It provided policy statements related to the goals. It provided adult literacy. It had a major professional development program. It had a program for trying out flexibility or deregulation on a demonstrated basis. It had a program to demonstrate choice in public schools. It had alternative certification, and so on.

It was passed through the House. Unfortunately, it got snagged in the Senate on procedural grounds in the last hour of the session. And so it didn't go through. That would have provided an authorization at about $800 million. The bill reference is H.R. 5932. And although it did not pass last year, it is alive in the sense that, as the Senate now deliberates on S. 2, on incorporating the America 2000 provisions, some of them, and deliberating on what should be done with respect to national goals, much of the provision that is in 5932 is very much on the table.

Our organization has designed a way in which you could incorporate key elements of 5932 with the provisions that are in the S. 2 bill on the Senate side, further incorporate certain concepts of the Administration's America 2000 program, and weave these into an act which, in our judgment, would be as significant in education reform at this stage as was the Elementary and Secondary Education Act in the mid-1960's and, indeed, as the NDEA in the 1950's and perhaps some of the other acts that I have recited just a few moments ago.

This is exactly the time to do it. The Federal role in providing research and development is well established. The Federal role in providing startup money for innovation or demonstrations is well established. The Federal role in providing for staff development, training of personnel, which is absolutely critical to reform the schools—that is well establish in past acts. The concept of supporting instructional technology has been already built into certain provisions. But they have never been put together in a full package which would provide a wedge for reform. And not a reform for 535 schools; there are 110,000 schools in this country. Any reform effort has got to be designed with a buildout over 10 years that will genuinely reach every single school in this country and make every school a high performance school.

Now, this is not to argue that the load has got to be on the Federal Government. We are well aware of the budget crunches under which you are particularly operating. We are well aware of the limitations over these next 2 or 3 years. But this is the time to design the strategy, and one can, in fact, build it. One can start in what would have to be a limited way with the expectation that one can build out at a later time when there is a better capacity to be able to make the changes that are necessary.

Mr. Chairman, we have provided specs for that. It is in the backup documents, and I won't take time to go into the details. As I have said, it does take certain concepts from America 2000, and it incorporates them into a broader design. Perhaps most important, it genuinely connects what would be in the new initiative with what States and localities are doing now and will be doing so that the some 6 percent of Federal money out of the total funding for elementary and secondary education is genuinely leverage money. And it means that you cannot take only a new increment that might be in America 21 concept. You have got to connect that with the other parts—Chapter I and education for all handicapped children and so on—so that you see them being brought together in terms of some real leverage.

That, incidentally, is a major failure of the Administration's program. That does not happen at all. They are isolated pieces in that effort, but they can be recrafted. And, indeed, in the Congress I am confident that that is exactly what will happen.

Now, one more point about a specific recommendation before you. The whole concept of having national goals for education, of course, is accompanied by having a reporting system and information to keep score on whether you ever reach them. This means expansion of the kind of assessment that we have nationally. If a goal is to be No. 1 in the world in mathematics and science, you have to have some system to know whether you are there, how far you are and what it takes to get there. If you want information about achievement for youngsters who are in the 4th or the 8th or the 12th grade, you have to have systems with a commonality of terms and the capacity to relate scores one place to the next, to be able to know whether you are making progress.

Indeed, one of the major developments in education is to try to shift to having goals, objectives, lessen the regulations, lessen the requirements or specifications for operation, leave more operation to schools and to school districts, and then measure the performance later to determine whether it is effective, and therefore build in incentives in order to try to change that.

Well, the theory works if you have a system of information and assessment that enables you to keep the scorecard necessary to know whether the targets have been met.

Now, here, again, there is a very special role at the Federal level. The debate which is going on right now on the issue of national testing is a debate which has to be connected with the use of NAEP, the National Assessment of Education Progress. But it is drawing in the concepts now of individual examinations for students. Current National Assessment of Education Progress does not measure individual student performance. No one youngster gets a report or a score on taking NAEP. The scores are aggregated across the State or across the Nation because that is all designed to tell us how well is the system doing, not how well is an individual youngster doing.

NAEP, of course, has been around since the 1960's. It is only within the last 3 years that there has been an authority to use NAEP State by State. Indeed, it was in June that the first mathematics at the eighth grade level on NAEP was reported.

Now, NAEP needs to be expanded substantially so that we have results State by State on all of the five subject areas, and we have got them on a periodic basis. Incidentally, right now there is not authority in order to expand State by State NAEP past 1992. But it should be provided.

The debate centers more on what should the National Government be doing in creating individual examinations, and that is a debate which has two parts: One, which level of jurisdiction ought to be most prominent in this—the localities, the States, or the Federal level; and, two, the issue of the nature of the tests themselves.

There is a very great dissatisfaction with what is happening in testing in this country; namely, its tendency to be short-answer, machine-scorable, very objective, but limited by way of its capacity to genuinely drive instruction or learning. Let me give you an example.

If your objective is to have students write essays, you had better test them by having them write essays. But grading essays is a very different thing when you are talking about large numbers of students than grading short-answer questions which might ask students about various parts of writing, parts of speech and how you parse sentences and so on like that.

The debate is, then, on the construction and type of test as much as it is on the jurisdiction which should administer it. There is a lot of work that needs to be done here. It is clear, I think, from the educators' perspective that testing must be associated closely with instruction and with the curriculum. But the more you associate it with instruction and curriculum, the more there is a worry if you do it on a national level because then you are driving a commonality of what the curriculum should be.

This is the reason why there are popular concepts now of trying to cluster individual examinations, having national standards with different exams associated with them. And it is why we have proposed in our testimony; we have proposed it to the Committees, the Senate and House sides. And, incidentally, I happen to be a member of the new Council on Standards and Testing by appointment of Senator Mitchell. We are there dealing with the issues of which type of assessment system should we have in this country.

Let me conclude, Mr. Chairman and Members of the Committee, by saying that I hope what I have provided is a kind of historical context in which we now have to be making decisions about education. The last part of that historical context has to be a bottom-line context on numbers. If you look at what proportion of total expenditure for elementary and secondary education was coming from the Federal Government in the mid-1960's, it was in the range of about 7. At the end of the 1970's, it was up to 9.8. Today it is down toward 5.6.

If one simply projected out what the Federal expenditure would be in 1990, if it was at the same proportion of what it was back in 1979 and 1980, rather than expenditures for elementary and secondary education alone, which by the Department of Education's own report was approximately $17 billion, we would now be expending $22.1 billion. Just if we were on that same proportion that was expended in 1979-80. In fact, there has been a net drop in what has been provided by the Federal level for elementary and secondary education.

That gap would be $5 billion. I cite that to you only to indicate that even if we were talking about an initiative of America 21 and added resources for testing, which would total, if it were fully funded in the first year, probably $1.7 billion, you are two-fifths of the level of what that gap is.

I repeat: We understand the crunch of the budget and the problem of these immediate years. We believe it is important to get a start, but we also have gone on record, as the Chairman noted, in support of a dedicated tax. We haven't tried to prescribe which it should be. That is not our area of expertise. But we will support it as hard as we can. And we think, just as you said, Mr. Chairman, if you can be persuasive that you have a program, a direction to be hinged to that kind of tax, and you are persuasive to the business community and to the public that that is absolutely critical for the development of the capacity of our students for the 21st century international competition, I think it can go. I think you can get American people to support that. And that is exactly why we have advanced it for your consideration.

Thank you very kindly for the opportunity to be here this morning. I will be pleased to respond to any questions.

[The prepared statement of Mr. Ambach may be found at end of hearing.]

The CHAIRMAN. Ms. Hamburg.

STATEMENT OF SANDRA KESSLER HAMBURG, VICE PRESIDENT AND DIRECTOR OF EDUCATION STUDIES; COMMITTEE FOR ECONOMIC DEVELOPMENT

Ms. HAMBURG. Thank you, Mr. Chairman and Members of the Committee.

My name is Sandra Kessler Hamburg, and I am Vice President and Director of Education Studies for the Committee for Economic Development, a nonprofit and nonpartisan research and policy organization comprised of 250 of the Nation's top business leaders and educators.

I am pleased to have this opportunity today to testify on the Nation's education reform effort, and specifically on CED's recommendations in its recent report, "The Unfinished Agenda: A New Vision for Child Development and Education," and its companion research paper, "Business Impact on Education and Child Development Reform." I also welcome the invitation, Mr. Chairman, to comment on the new America 2000 education strategy.

For 50 years, CED has focused on those issues that most affect the long-term economic well-being of the Nation's citizens. Education is one of those long-term issues because we believe that the education of America's citizens has significant consequences for our Nation's productivity and competitiveness. For this reason, nearly 10 years ago—well before the release of "A Nation at Risk"—CED's trustees embarked on what has become a series of landmark studies on the role of business and education reform.

The first two of these reports, "Investing in Our Children: Business and the Public Schools," and "Children in Need: Investment Strategies for the Educationally Disadvantaged," have had a major impact on education reform, not the least of which has been the focus of the business community on education as an investment and not merely as an expense; an investment that has returns in terms of increased participation in the job market, more taxpaying citizens, reduced crime, welfare, health, and other costs. This return on investment is the spark that has driven the business involvement in education ever since.

The recommendations in those early report have had a major impact on education reform in the States and local communities. In "Investing in Our Children," recommendations on accountability, what to do with bankrupt schools, career development of teachers, market-based school incentives, and school-based management have been incorporated into many education reform plans. "Children in Need" has led to a virtual explosion of early intervention initiatives in States and local communities. At the beginning of the 1980's, only eight States funded preschool programs for poor children. By 1990, that number had grown to 35. And last year at the national level, Head Start, which had been recommended for full funding in both "Investing in Our Children" and "Children in Need," received for the first time in its 25-year history full funding authorization, although the actual allocations have fallen far short of those full funding targets.

Despite these successes, CED's trustees recognize that the Nation's reform efforts were failing to generate the major, measurable improvements in student learning demanded by an ever more competitive global economy. Accordingly, CED's Research and Policy Committee appointed a subcommittee of CED trustees, chaired by James J. Renier, Chairman and CEO of Honeywell, to look at this issue. The charge to this group was to examine the results of nearly 10 years of education reform, identify the barriers to change, and develop a comprehensive vision of education that will enable all children to succeed in school and in life.

The report that resulted is "The Unfinished Agenda," and its central thesis is this: Unless much more is done to meet the health, social, and developmental needs of all children, both before and while they are in school, the Nation's ambitious education goals are destined to fail.

The reason for this is clear: Dramatic social changes have forced public schools to assume responsibilities for the welfare of children that go well beyond their traditional educational mission. Jim Renier, who earlier this year testified so eloquently before this Committee on the importance of the WIC program to the health and development of poor children, learned firsthand of the consequences of the social agenda from his experience as chairman of the "Success by 6" program in Minneapolis. Mr. Renier has observed that the social problems of students—poverty, drug abuse, violence in the streets, the disintegration of the family—are overwhelming the schools. As a result, teachers are forced to spend most of their time not on academics, but dealing with the consequences of social failure.

CED estimates that as many as 40 percent of the Nation's children are at risk even before they reach the schoolhouse door. The reasons for this are many, but they stem increasingly from the disturbing rise in the number of households headed by single parents—mostly women and largely poor or near poor. During the past 40 years, the number of babies born each year to unmarried mothers has increased by 600 percent, from 1 in 25 to 1 in 4. One-third of these births are to teens. While many single parents have provided supportive and nurturing homes for their children, the odds are stacked against them. The William T. Grant Foundation estimates that 9 out of 10 families headed by young single mothers who are high school dropouts are living below the poverty line.

What this means for children is that more of them—25 percent of all children under the age of 6—are now living in poverty. Children of color bear an ever greater share of this burden. In 1987 nearly half of all black and more than two of every five Latino children under the age of 6 lived in poverty.

But it not only the poor who are failing in school. As it was pointed out earlier, when we look at indications of achievement across the board, our students are not doing as well as those in competitor nations. The National Assessment for Educational Progress estimates that less than half of all students graduate from high school with the math, English, or science skills needed for jobs in business or Government.

Part of this answer is less demanding curriculums and lower standards. But even children who come from middle-class families are under greater social stress than they once were. More than half of all women with children under the age of 6 are in the workforce, and only 8 percent of schoolaged children live in families where the father works and the mother stays at home—what we think of as the traditional nuclear family. A 3-year-old in full-time child care, therefore, outside the home typically spends about half of his waking hours in the care of adults other than his parents.

The trustees of CED believe that we can shift the social burden from teachers and help kids become better able to compete academically. But it demands that we as a society must be willing to think differently about children's developmental and educational needs.

First and foremost, the Nation needs to recognize that in a very real sense, education begins at birth and not when children enter school. Children are born to learn, and they must be healthy and well nurtured to do so properly. This means they need prenatal care, proper nutrition, preventive health care, and development learning experiences in the home and in both child care and preschool settings. They also need good parenting, and our policies must recognize the primary importance of strengthening families.

The problem confronting many families and their children is not necessarily the lack of available help, although key programs like WIC and Head Start still only reach a minority of the families that need them. So often these and other services are scattered throughout the community and are not accessible. What CED calls for is a reorganization of how these programs are administered and delivered so that they can be available at a single site in the community or at a school building.

CED has spent some time looking into the Federal role in dealing with this problem. Included is a call for additional resources for strategic intervention programs that we know work, such as prenatal care, Head Start, WIC, and immunizations for children. But there are also two other areas in which we believe it is essential for the Federal Government to become involved and to be more involved than they currently are. One of those is coordinating programs for children and youth, and the other is in education research and development, which is a traditional Federal role.

The Federal Government needs to assess its own stock of children's programs, both in terms of their effectiveness and the efficiency in which they are delivered. We currently have children's programs scattered all over the Government. We have educational support programs in one department and child development in another. Head Start is in one agency of HHS, and child care for dependent mothers is in another. We have nutrition programs in agriculture, but AFDC is in HHS. Each of these has separate authorization, appropriation, and bureaucracy. The result is that by the time the programs reach the State level, they multiply considerably. Until recently, California had 160 programs for children and youth overseen by 37 different agencies in seven different departments. In recent months, California has taken steps to mend this situation by creating a Bureau of Children in the Governor's office. But overall we have little way of knowing whether these programs are really reaching their constituents or having the effect that they are intended to have. We also are not sure how the totality of these programs is affecting the ability of students to succeed in school.

An encouraging development last week was the appointment of a new working group in the Department of Health and Human Services, cochaired by Jim Renier, that will look at ways to coordinate efforts throughout Federal and State governments to ensure school readiness.

Now, the discussion of the Federal role in education leads me to a consideration of the President's America 2000 education strategies. On the whole, CED is very supportive of the scope and intent of America 2000. The President, in articulating his vision, has placed education at the top of the national agenda, where it belongs. Many of the key initiatives to increase accountability, improve assessment, encourage more flexible use of Federal resources, bolster the skills of teachers and principals, and identify employability skills reflect positions CED has consistently taken in all three of its education studies, beginning with "Investing in Our Children." The specifics of these positions are described in the attached comparison between American 2000 and the CED education program. I direct your attention there for the details. However, there are two key points on which we have concerns, and I would like to discuss these.

The first is the role of the Federal Government in supporting educational R&D. CED has consistently recommended a vigorous Federal effort in this area and views this as one of the key areas for increased Federal investment in education. Our concern with the aspect of Federal R&D in the America 2000 program, however, lies with the reliance on private sector contributions to support the new development effort to create a cadre of new American schools. Corporations are already contributing extensively to innovative education and child development projects at the State and local level. But given the state of the economy and the pressures business leaders might feel to contribute to the new development corporation, current corporate donations to promising initiatives may be diverted or cut back. This could send a discouraging message to those who have been working on the innovative approaches that could become the new American schools across the board. We therefore would urge the development effort to identify and nurture the many excellent programs and approaches that already exist and which work, such as the Comer process, the Park East Secondary School in east Harlem, and the Albuquerque New Futures School for teen mothers and their children.

A second area of concern is with the private school choice plan proposed by America 2000. CED has long supported choice among public schools. We believe public school choice can inject a healthy dose of competition into education. But CED's trustees do not believe that choice, by itself, will drive educational change. As we point out in "The Unfinished Agenda," public school choice should be applied where it is part of an overall program to restructure the schools, where there is adequate accountability, and where the special needs of disadvantaged students are taken into account. We firmly believe that the very first obligation of society is to guarantee every child access to quality education, and not just the lucky few who happen to live in the right neighborhood or who have parents who can work the system. It is precisely these most vulnerable children who would be left in the worst performing schools in a private school voucher system.

However, we do recognize that we don't really know how such a system might work and effect the overall quality of education, since there really are no good examples of where private school vouchers have been tried extensively and for a long enough period of time. In a recent op-ed article in the New York Times, CED's chairman, Brad Butler, the former chairman of Procter & Gamble, suggested that if the Administration is determined to introduce private school choice, it should be done as a carefully controlled experiment. As Mr. Butler says: "The Nation should not be rushing headlong down the path of private school vouchers until we know how the system might work in practice."

I would like to close with some observations from the research report "Business Impact on Education and Child Development Reform." This analytical effort was commissioned by CED as background for "The Unfinished Agenda" and was authorized by Mike Timpane, President of Columbia Teachers College, and his colleague, Laurie Miller McNeill.

In their analysis of nearly a decade of education reform, Mr. Timpane and Miller McNeill conclude that we indeed have a long way to go to achieve the results in education our Nation needs. However, the trends in reform that they see, particularly the emerging understanding of the broad needs of children, lead them to be cautiously optimistic. They believe we are on the right track and that many of the education initiatives currently being implemented at the State and local level are symbolic of a new commitment to the development of all human resources in this Nation. They give considerable credit to the business community for driving this new agenda and note that in many, if not most, States the new reforms would not have passed without business support.

At CED we believe we must continue to harness that energy to complete this most critical task. And that, Mr. Chairman, is our Nation's pledge to educate all children to their fullest capacity. If we fail in this effort, nothing less than our future as a free and democratic Nation will be at stake. Thank you.

[The prepared statement of Ms. Hamburg may be found at end of hearing.]

Mr. KILDEE [presiding]. Thank you, Ms. Hamburg, for your very fine testimony.

Just a comment before we start some questions here. I think the last time that we had both the Congress and the Administration agreeing to this degree on the importance of education was probably back in 1965 when the Elementary and Secondary Education Act was enacted. I think this is a golden opportunity for us. We have business, we have the Administration and the Congress really in a mode where they want to act. I think to miss this opportunity would really be a real tragedy.

We have to find dollars for this. Very often we hear you can't solve educational problems by throwing dollars at them. We didn't hear that quite so much when we built up the Pentagon, you know, for 10 or 12 years, but generally we single out education as the one where you can't throw dollars at it. Well, I think we do need some greater financial commitment to education, plus some restructuring in education itself.

Mr. Ambach, you mentioned the tax, a dedicated Federal education tax. How would you envision that would work, and what kind of money are we talking about?

Mr. AMBACH. Mr. Chairman, we have provided in the backup piece to Attachment 4 a spread sheet which would indicate the approximate amounts. We did that by way of estimating not each year, but estimating out to a target, perhaps 4 years from this point, at which time in order to meet projected needs to provide for full services in each of the existent Federal programs, such as Education of All Handicapped Act, Chapter I, Pell grants, it was our projection that one would need—if you were fully servicing each of these—an expansion that would exceed about $40 billion.

Now, there would have to be a buildout to that, obviously, and we provided that for illustrative purposes to show what the target would be. We did not, Mr. Chairman, prescribe exactly what tax ought to be used, whether it ought to be a corporate tax, whether it ought to be a payroll tax, whether it ought to be some provision on income. That is not our area of expertise. That ought to be determined by Ways and Means, by Budget, by Members of the Congress. But we have given you an order of magnitude through which it would be done.

Mr. KILDEE. What would guarantee that we would not use that extra tax to relieve the burden on the general fund, which has happened in the past? I am intrigued by this idea of getting some extra dollars for education. What would guarantee that we wouldn't use that like the highway fund where we just don't spend it all, and then use that to make the deficit look smaller?

Mr. AMBACH. Well, the concept, Mr. Chairman, of a dedication here would mean that any revenues raised under this dedicated tax would have to be committed to a specified set of education program, and once again, we have indicated those.

It is our judgment that the Congress should not lock those education programs solely to that particular tax. Indeed, the concept that we have advanced would be a mix. You would have a certain funding of education programs which would be from more general funds, if you will, but you would have then the addition of the dedicated tax which would provide, in effect, the growth that you would need for purposes of assuring full service on these programs.

Your question is extraordinarily important with respect to trying to put in the right hedges, if you would, to assure that you do not create a substitution effect. This is, of course, the problem that any one of the States has when they put a dedicated tax in, when they put a lottery in, when they put any kind of an earmarked provision for education funding. There is always the danger you will get a substitution effect. You will simply drop it off on another part.

Now, one way of assuring that is, of course, to build in a threshold level of expenditures that would be drawn from other revenues, whatever year the new tax would start, and therefore you would require that all of the new revenues from the dedicated tax would be added on top of that threshold. You could furthermore build in a kind of an escalator on that threshold related to some kind of a cost of living adjustment, which would assure that you were not losing ground by way of that initial earmarking of general revenues. So there are ways to do it.

Mr. KILDEE. The reason I asked that question, and I think you and I are wrestling with some guarantee, because in Michigan I was in charge of the school aid budget on the Appropriations Committee, and we had what was called a basic school aid fund. It was funded from various sources, a liquor tax, which we called shots for tots that went into that. The lottery was finally put into that.

But I can recall when the lottery money was put into the basic school fund, it really didn't probably add anything to education because we just then took less from the general fund where the lottery money used to go, and we didn't really pay too much attention to that.

I would like to see it structured some way where, if we do have an additional tax, it would not be offset some way and that we could get some guarantees because both the Budget Committee and the Appropriations Committee can be very, very creative when it comes to a real fiscal crunch. We want to make sure that any extra money that was raised for the purpose of education really did enhance education. I would look forward to working with you.

Mr. AMBACH. We would be very pleased to do that, Mr. Chairman. You cite an experience from Michigan. There are experiences from many of the States with respect to trying to build in dedicated taxes together with general funds. I think that we can provide some examples from them. But, of course, they have all got to be brought into the Federal context.

We agree with you that if there is such a dedicated tax concept sold to the American public, then it has to be accompanied with an assurance that this is certainly going to be used for education purposes and not used to offset what would be other adjustments.

Mr. KILDEE. Maybe something like we do with the State programs. We require a maintenance of effort.

Mr. AMBACH. Well, that is why I suggested. If you start out, you see, by putting in a threshold level on the basis of what is currently being funded and then indicate that the additional taxes have got to be used for expenditures on top of that, at least you build in that floor. And you can also put an escalator factor on that so that you don't lose ground over time from that threshold level. I do believe that there are ways to do this.

Mr. KILDEE. I am sure there are ways.

Mr. AMBACH. Whether there is the will and whether it makes good sense to use the focus of taxing associated with education initiatives as a part of the overall Federal funding strategy; we think it makes sense.

Mr. KILDEE. And I think there is a way. We have to just make sure the way is safe enough where it escapes the creativity of what takes place even in the 602(b) allocations right in the Appropriations Committee. There is a great deal of creativity that takes place there.

Mr. AMBACH. Incidentally, Mr. Chairman, in our recommendation, in contrast with some of the proposals that have been in on the children's trust concept, we would not alter the authorities of Appropriations Committees to make determinations in terms of relative call on the funds for particular programs. I think that is a very important characteristic. Nor would we alter what authorization Committees have in terms of their powers to make decisions on which programs ought to be authorized at various levels.

Again, I think that is a very, very critical part of this. Our attempt is to try to find the revenue stream and then built it on to the decisions that the authorizing and the appropriating Committees would make.

Mr. KILDEE. Ms. Hamburg, the CED has a great reputation on the Hill and we appreciate all the work that has been done, the publications and the impetus. Your publications are usually found on the desk of most of the people who are involved in trying to improve education in this country.

The Committee for Economic Development indicates that we should be responsible for the health, education, and social well-being of those children who come into the classroom. You know, there are direct educational problems that a student has and then there are societal problems. But the person is the same person.

Very often we have to ask, What's the educational pathology and what is the societal pathology and how do we address that?

I really like your recommendations. Again, how should we fund in a given school where we take care of both the educational, health, and social problems of that child? How should we fund that?

Ms. **Hamburg**. We grappled with the issue of resources and where they would come from in the subcommittee. And we tried not to get too specific, partly because we recognized that that funding has to come from three different levels. But the lion's share of the funding for educational programs comes from State and local revenues.

And each community and each State has different needs that they have to grapple with. The Federal Government's share is a very small percentage of that. Where we saw the need to increase revenues was in the area of early prevention, so that we can hopefully, down the road, prevent some of those social problems from coming into the classroom in the first place. So we can get children who start kindergarten or first grade off on equal footing with one another.

In our discussions of the need to increase revenues where extra programs were being added or broadened, the trustees did discuss the idea of a dedicated tax. They didn't discuss it specifically on the Federal level because we were looking at all three levels. The conclusion and the consensus of the group—even though there was some sentiment for recommending that revenues, that a consensus be built around revenues being raised specifically for these programs, at whatever level—the consensus that emerged from the entire Committee was that a dedicated tax could run into problems just as you suggested with their being utilized for other purposes or their becoming inflexible if tied to only certain programs.

And so the recommendation, therefore, became to look at each situation in each community and State; and at the Federal level, at those strategic Federal programs, such as Head Start, WIC, immunizations, and child care support. And to first try to find the revenues by reallocating from other sources because there is a blanket need to reduce the Federal budget deficit and to get a handle on our fiscal problems. And that should be the first priority should be reallocation.

But they were not against recommending to find ways to increase overall revenues, if a political consensus could be found for that.

Mr. **Kildee**. In Flint, MI, we have three schools, Gundry, Holmes, and Northwestern and they are in an area where there is a concentration of not only educational problems, but some societal problems—some homelessness, drugs, crime, some dysfunctional families.

And what is happening there—and this is something we hope we can replicate elsewhere in Flint—we have taken quite a bit from your reports here, from the CED, and are trying to bring into these three schools the various social, educational, and health facilities, getting money from one of the foundations that support you—the Robert Wood Johnson Foundation—and we got some Federal dollars.

Hopefully we are going to see how that can help not only the children in that school, but help that area of town by having the community school reach into the community and having the community come into the schools. So we are grateful to CED for some of their advice on this and we are trying to implement that in a pilot study in Flint, MI.

Let me ask both of you a general question. The President recently said we've increased overall spending for education 33 percent, and yet, the SAT scores are dropping.

We had people from Sandia Laboratories, who really have looked at this and they say that the facts behind the figures are quite different from that. They have indicated that when you look at those people who are taking the SATs in 1970, and take a comparable group who are taking the SATs in 1991, that there is no drop at all. But because we are—and I think for very good reasons—encouraging more people to go on to college, more and more are taking the SATs. And those who formerly were not taking them, are taking it and that does bring down the SAT, but doesn't give you the facts behind that.

Could you comment on that? Do you think there has been any drop in the SATs among those who were taking it, that group of students taking it in 1970 and those who are taking it now? Mr. Ambach, do you want to tackle that first?

Mr. **Ambach**. Well, I will certainly try, Mr. Chairman. The attempt to use SAT or ACT scores as an indicator of overall progress of American education is not a wise attempt. The SAT scores have been built into the wall charts and they have been used as indicators of education progress in the States and the localities primarily because they were the only thing available.

If you talk with folks in the Department of Education when they first put the wall chart together, they had no other indicators of achievement level from one State to the next. So in attempting to construct the wall charts State-by-State they went with what they had and they started using SATs and ACTs.

We opposed that from the outset. And we opposed it precisely for the reason that you are now getting at, Mr. Chairman. The percentage of youngsters who take the SATs or the ACTs in the different States is varied. In some States there will be 70 percent of the seniors who take the SAT or ACT. In other States, it may be 25 percent.

When one is trying to match up the average score from 75 percent of the youngsters taking the test, against another State with 20 percent, it is grossly inaccurate use of that statistic.

Now, that is a backdrop on the limitations of it. Remember the SAT, of course, is taken only by those who want to take it, and it has never been considered to be a sampling type of test that measures overall progress. And you can get some very, very important anomalies with it.

Let me give you an example from New York State. In New York State, there were regent scholarships which were formerly awarded on the basis of a separate scholarship examination, designed specifically for that purpose. Up until a period of time when the legislature cut out the money for the scholarship on a cost-cutting basis, and then said, now, use the SATs and ACT scores for this purpose, until that time about 50 percent of the high school seniors used the SATs.

As soon as you started having a scholarship awarded on the basis of an SAT, they jumped in number taking it to pretty close to 70 percent. Now, they weren't taking the SAT as its purpose was intended—that is admission to college—they were taking it simply because that was the only thing you could take to get a scholarship exam.

The average score in the State in 1 year dropped perhaps 15 to 20 points. Now, someone would say, the bottom fell out, in terms of performance levels of the State system. No such case. It was the fact that you had increased very rapidly, for this reason of taking this for a scholarship, the use of that instrument.

I think what you found in the study, and they have looked it very closely, is that there has been a strong impact in the depression of scores associated with the increase in proportion of students who have been taking the test.

There are ways to examine different bands. You can look at the top 10 percent, 20 percent, 30 percent and get a matchup. Now, the fact of the matter is that overall, there has been a slide. There has been a decrease on the SATs, but it is not nearly as profound as it has been stated. And I repeat what I said at the outset, that is not a good instrument to use for purposes of trying to determine what's the quality of the overall system. This is one of the reasons why NAEP is so important, so that we have got another instrument which is genuinely a sampling of students in States or the Nation, on various subject areas. And you are testing everybody or you are sampling everybody in that case.

Mr. **KILDEE**. Has there been a slide, say—assume the top 20 percent of each graduating class back in 1970 taking the SAT test or ACT test and the top 20 percent of each graduating class today, they would have indicated that there is really a fairly constant score among those?

Mr. **AMBACH**. Mr. Chairman, I would have to ask the privilege of going back and taking another specific look at that data.

Mr. **KILDEE**. I would want to myself, I was just asking for a kind of a general——

Mr. **AMBACH**. I have not looked at it up late and I would be pleased to do that for you. You made the point that this information is connected up with spending, and we often hear that spending has increased by 33 percent from 1980 to 1990. That's correct. Unfortunately what most folks don't add to that is that spending between 1970 and 1980 went down about 33 percent. So, in fact, what happened is that if you look from 1970 to 1990 and look in real dollars we are about in the same place.

So it is nice to see the last decade as going up, and indeed, one has to commend the localities and the States for tremendous efforts that are being put in to increasing the system, but you really have to look at it over a 20-year span. And there the chart goes like this.

Mr. Kildee. And much of the increase has been for special education, not for general education. When you count all the dollars, we have concentrated more on the needs for special education where we do find increases.

Mr. Ambach. That's correct, Mr. Chairman. And that, of course, has been, in large part, an initiative that has been pushed through the Federal Government, an extraordinarily important initiative to provide for equity and to provide for opportunity.

Mr. Kildee. I like the fact that more are going on to college. That can have the effect of reaching down further in that high school graduating class for those taking the SATs. I think that's a very good thing. But it can affect the scores. I like the fact that we are putting money into special education but we have to look at really what have we done for general education.

And so I think we do make some social choices here, but we should look at the facts behind the figures. Very often I tell the story that one time in Royal Oak, MI, that the merchants became very, very panicky because they discovered that the parking meter receipts were showing that people were not coming downtown any more. So they completely redid the downtown, spent a lot of money. And still parking meter receipts were going down further. They spent some more money to try and figure why weren't people coming downtown? And they found out that the person who was opening the parking meters was stealing the money.

So we have to look at the facts behind the figures, some times, and get them straight. There are some facts behind the figures that are good facts here. I think the fact that we are spending more for special education; the fact that more are going on to college, I think these are good things, but I think we have to have the facts behind the figures.

Mr. Ambach. Excuse me, Mr. Chairman, just one more point in this context. If the target figure is 90-percent graduation rate, and if you put in toto those youngsters who are either economically disadvantaged, or happen to have a disabling condition—and we are talking about 28 to 30 percent of the youngsters when you put the two categories together—it has to be perfectly clear to all of us that a large portion of those youngsters who are economically disadvantaged or disabled must be provided the special assistance in order to get to a nationwide 90 percent completion rate.

You to have better than two-thirds, 75 or 70 percent of the youngsters who are economically disadvantaged and who are disabled actually graduating in order to be able to get anywhere near a 90 percent total population. I think that's the important thrust by way of using these new national goals to make it clear as to what this country has got to do by way of assuring that the youngsters who need the help most are going to get it in order to make sure that our national goals are achieved.

Ms. Hamburg. I would just add that I think Mr. Ambach's analysis is absolutely on the money, with respect to using SAT scores as an indicator of anything they really are inaccurate. We have never relied on them for our analysis of the problem. And that's one of the reasons why we have since our first education report, and in each one of our education reports recommended the expansion of the national assessment of educational progress, so that we can have an accurate assessment of how our students are achieving, not only just before they are ready to graduate highschool, but at various age levels throughout the system.

And on the spending issue, I think he is right again. Much of the increase in the last 10 years, I think, was due to increases in teacher's salaries that came about as the result of the first wave of education reform. And those increases basically brought teacher's spending power up to the levels that they were in the early 1970's. So we were just really making up for lost ground.

Another part of increase also, I think, went to increases in social needs of students and in schools having to meet social mandates handed down by both the Federal and State governments. A principals group in Minnesota, for example, came up with a list of 52 separate social mandates that schools in Minnesota had to comply with before they could ever get to the academic program. So, I think, this is where the money has been going.

Mr. **Kildee**. I want to thank both of you for your very fine testimony. It has been very, very helpful to myself, both as a Member of this Committee, and as Chairman of the Elementary, Secondary and Vocational Subcommittee of Education and Labor. You have helped us a great deal and we very much appreciate it. I think we are at a time now where we can really seize the opportunity to make a difference in education in this country.

Thank you, very much.

Ms. **Hamburg**. Thank you, very much.

Mr. **Ambach**. Thank you, Mr. Chairman.

Mr. **Kildee**. Our next witness is someone well known to both this Committee and to the Education and Labor Committee. Dr. Ted Sanders, Under Secretary and Chief Financial Officer of the U.S. Department of Education. Dr. Sanders has seen many a Secretary of Education come and go and he remains. That speaks well of him.

Dr. Sanders, do you want to introduce those with you and you may begin your testimony.

STATEMENT OF HON. TED SANDERS, UNDER SECRETARY AND CHIEF FINANCIAL OFFICER, DEPARTMENT OF EDUCATION; ACCOMPANIED BY SALLY H. CHRISTENSEN, DIRECTOR OF BUDGET SERVICES, AND BRUNO MANNO, ACTING ASSISTANT SECRETARY FOR THE OFFICE OF EDUCATIONAL RESEARCH AND IMPROVEMENT

Mr. **Sanders**. Thank you, Mr. Chairman.

It's a pleasure to be with you this morning and talk about these very, very important issues. I do have with me at the table, to help me today to answer your questions, Sally Christensen, who is our Director of Budget Services in the Department, quite a familiar face to you, and other Members of the Committee, given her contributions across the years; and I also have Bruno Manno, whose position of record today is Deputy Assistant Secretary for the Office of Educational Research and Improvement. In reality he is the Acting

Assistant Secretary and also serving as a special advisor to the Secretary on Policy and working particularly on the America 2000 strategy.

I do have formal testimony, Mr. Chairman, but if it meets with your pleasure I would like to just summarize it this morning and submit it formally for the record.

Mr. KILDEE. Certainly, that will be appreciated and your full testimony will be made a part of the record, and you may summarize as you desire.

Mr. SANDERS. Thank you, Mr. Chairman.

I would like to specifically highlight in my summarization two things if I might, after making kind of a general statement about the proposed 1992 budget for the Department of Education.

As you know, the President's requesting some $29.6 billion. This is the largest Federal budget ever for education. It includes an increase of roughly $2.5 billion over our 1991 appropriation. And that $29.6 billion represents about 6 percent of our Nation's total expenditure for education. That total expenditure being just under $400 billion today.

Our budget, as we bring it to you focuses on the Administration's highest priorities—the first being providing assistance to disadvantaged, to those with disabilities, as well as to needy college students, and supporting also a variety of reform and improvement activities.

In general, we have two specific areas that I would like to share with you, just a bit, this morning. They are important priorities to the Secretary and to the President. The first of those is the America 2000 strategy, and particularly that part of it which is included in legislation and our request for the America 2000 Educational Excellence Act, as it is reflected in this budget request.

The second is to talk with you a bit about our thrust in the Reauthorization for Higher Education Act.

So, if I might, and I feel like I may be even a little bit more brief in my summarization because I know you, Mr. Chairman, are very, very familiar with the America 2000 strategy, but perhaps there are others who are not quite as familiar.

As you well know, the President's America 2000 is a strategy and not a program. It is a means for this country to move itself to address education needs across the country, a community-by-community effort. The strategy breaks into four major component parts. As the Secretary likes to call them, tracks. The first of those deals with the current group of students who are in our schools and for them better and more accountable schools.

The strategy also looks at tomorrow's students and for them the strategy envisions a new generation of American schools. For the rest of us, those who are yesterday's students and in today's work force, changing us from a Nation at risk to a Nation of students.

Then the fourth track recognizing that for the typical 18-year-old today, only 9 percent of his or her time has been spent in the classroom, inside the school, if you please, and 91 percent of their lives have been outside the school. And this particular track recognizes that if we are going to cope with the current challenges that face us we must look beyond just the school and the classroom to do so. Because there are other conditions that affect the learning and the achievement of our children. In this track we want to create communities where learning can, indeed, happen.

In the first track, the President envisions a number of specific things happening, as you know. He sees a set of world-class standards in the five core subject areas. And the creation in this decade of a set of voluntary national tests that we refer to as the American Achievement Test.

He also envisions new means for recognizing and rewarding students who achieve, as well as schools who achieve, teachers who achieve. He also envisions a new kind of reporting to the Nation, more importantly to communities and to parents about the performance of their schools.

I just picked up a bit of the conversation with the last witnesses and know that you, apparently in your earlier discussion, focused in on the importance of this particular area, and our need to do it right.

The strategy, therefore, also recognizes the need for some changes in the national assessment of educational progress that would help to support this vision becoming a reality. This track one also envisions new choices and incentives for choice for opening the numbers of alternatives that parents and children have in matching their learning needs to the type of school that they would best succeed in.

The strategy, in this track, also recognizes that if we are going to have the dramatic effect that is required, as we move toward this new century, that it is going to be necessary for us to focus considerable attention on both the preparation and the upgrading of the current teaching force, as well as the skills and knowledge and abilities of the people who will lead our schools for the remainder of this decade and into the next century. Therefore, the President has called for the creation State-by-State of a set of Governor's academies in each of the five core learning areas, as well as one that would promote growth among our school leadership.

This and many other specific elements, Mr. Chairman, make up the first of the four tracks and how we would deal with the needs of the current set of students that are in our schools.

The second track, again, dealing with tomorrow's students and this vision of the need to create this new generation of American schools, the strategy recognizes that even the best of our schools in America must improve if we are going to meet the challenges facing us a Nation in the next century. And if the very best must improve, then others must even improve more dramatically.

Here, the President has called upon the private sector to help us to jump-start the collection and the use of what is or what we need to know to create this new generation of American schools. And he has challenged that private sector to raise between $150 and $200 million to create five to seven R&D teams in the country that would serve as the source of intellectual stimulation about what it is that we must do if we are to create these schools and to do it effectively.

He envisions a very creative collaboration between corporations and universities and think tanks and school innovators, like Hank Levin and Ted Sizer, and others. The purpose was to envision how we can create these break-the-mold schools for the next century.

The New American Schools Development Corp., which is to raise money in support of this effort has been created and is well underway today, as we appear before you, Mr. Chairman.

Combined with this is this vision about what we must do to create this new generation of schools and it would envision at least 535 communities out there who would become America 2000 communities and who would directly support the startup of the first set of these new American schools.

The third track, Mr. Chairman, the one that deals with you and with me, recognizes very, very clearly that what we are talking about for the next century is really an issue in productivity and that if we are going to improve the productivity in the early years of the next century, we are going to have to do more than just effect what is going on in our educational institutions. Because only 15 percent of the beginning work force of the next century is in our schools today. And 85 percent of us that will make up that work force in the year 2000 are already in it.

Many of us are illiterate and underskilled for the positions either we aspire to or that we currently hold, and this particular part of the strategy envisions raising the literacy levels, as well as seeing each of us with the opportunity to go back to school to improve our own knowledge and skills for living and working in the next century America.

The fourth track deals with the communities and provides specifically for an initiative that would create these America 2000 communities. America 2000 community is really a simple but a powerful idea. An America 2000 community is one that, in its own way, recognizes the importance of and adopts the national goals for itself.

Second, it is a community that commits itself to creating a strategy whereby the community will move itself toward the attainment of those goals. And third, it is a community that is willing to be held accountable not to the bureaucracy in Washington, or at a State level, but to the larger community, the community in which it will exist. It is willing to appropriately measure and to report its progress toward the attainment of the goals. And, fourth, it is willing to, and agrees to create and support one of these new American schools.

Most of the strategy, Mr. Chairman, is not the kind of strategy that would be included in a typical bill that we would present to Congress. But there are parts of the strategy that do require the attention of Congress because they either specifically require authorization, and oftentimes the commitment and expenditure of money. You will see that reflected in our 1992 budget request. You will notice that we have requested $180 million that would provide the seed money for the first wave of these new American schools.

We have asked for $100 million to support a merit schools program that would actually recognize and reward elementary and secondary schools that have demonstrated progress across a 3-year period in increasing the numbers of its students who achieve competence in those core academic areas. And we have also asked for $92.5 million to support the Governor's academies in the five core areas and the academy for school leaders. We have also requested some $25 million, Mr. Chairman, to support State's initiatives in looking at and adopting policies that would provide for the alternative certification of teachers and principals.

And we bring to you a request for greater authority, greater latitude in increasing the flexibility that States and that districts and that schools have in their utilization of Federal funds. We are also asking for three specific authorities relating to educational choice.

The first of those would deal with the Chapter I program, and that would literally, if enacted, ensure that these compensatory services to children who are at risk follow the child who enrolls in a new district or a new school under a local choice program. First it would be required though that the State or that the local authority would create such policies, and then once created, that they would allow, rather than stand in the way, of these services to follow the child.

We are also requesting $200 million that would support and encourage localities that implement choice programs. This would include those that experiment with programs that provide for alternatives between public and private schools. And we are also requesting $30 million appropriation that would help us identify approaches through the funding of demonstration sites the potential for expanding educational choice.

And, again, we are asking for authority that would allow us to conduct State representative assessments in the national assessment of educational progress in three grade levels for all subject areas beginning in 1994.

We also are seeking the authority to use NAEP tests for purposes that would even work below the State level. Then, Mr. Chairman, I would move to summarize what it is that we are asking for in higher education reauthorization.

This is a major thrust for 1992. We spent well over a year looking very, very carefully at the key policy areas in preparing the proposal that we would bring to you. The budget part of that reflects the same three themes that are in our larger reauthorization proposal. That is, first of all, we want to increase the access that the most disadvantaged of our students have to postsecondary education.

We want to do that, Mr. Chairman, by targeting Pell grants to the lowest income students. We would also, though, wish to provide increased assistance to low- and middle-income students by raising the loan limits for both the needs-tested Stafford loan program and the non-needs-tested supplemental loans for students.

And, also, Mr. Chairman, we, as a third priority would ask for a new authorization and appropriation to support the recognition and the direct rewarding of students who excel academically and we would ask for the creation of a new Presidential achievement scholarship program, as well as the expansion of the National Science Scholars Program.

Again, in summary, we have sought to target our funds to the most needy of our students. These are those that come from families with incomes of less than $20,000. To do that, Mr. Chairman, we have basically held harmless students at the other income levels and accomplished this with some additional funding, as well as the interaction of a number of policies that are intended to help us to deal with defaults and other situations; as well as the flip side of this recognizing academic achievement, also recognizing that one ought to meet some kind of a minimum criteria to continue to receive an award.

I will stop there, Mr. Chairman, and Ms. Christensen, Mr. Manno, and I would be happy to respond to any questions that you might have. Thank you.

[The prepared statement of Mr. Sanders may be found at end of hearing.]

Mr. **Kildee**. Thank you, very much, Mr. Sanders.

I will scatter a few questions here first. The Chapter I situation continues to baffle me, what the Administration really would wind up with if you allowed a student to exit a school and go to another school and pull with them, whatever or however certain dollars are assigned to them, to the other school.

What bothers me is that we distribute that money basically on poverty, but we use it for the children in the school who are educationally deprived. Now, very often the school finds they have just enough Chapter I dollars, for example, that they can do this and do that, and maybe get a reading specialist. And that reading specialist, of course, is very key in that school.

But if enough students exit that school and in some fashion, pull those dollars with them, the school they are leaving may be losing dollars that they need for the reading specialist and you are leaving behind then a Chapter I program that is less than effective. How would you avoid that?

Mr. **Sanders**. Well, Mr. Chairman, I don't know that one can construct a program that would assure that the situation that you create here would be necessarily avoided. The intent of the policy that we have is that we recognize State and local policies for choice where they are created.

And to recognize, yes, in the program, we target schools on the basis of poverty but we do identify within those, the children who are most educationally disadvantaged. And our desire is regardless of whether that particular child is in that or another school, the child deserves and needs, even yet, that service. And, therefore, we would expect the service to follow that child. That it would not present problems that we would have to overcome, I would not suggest that, but the realities are that the child still needs the service and the service ought to follow the child.

We are looking at this based on the child's need by virtue of the fact that they are educationally disadvantaged and otherwise entitled to the service.

Mr. **Kildee**. Let's broaden that out a bit. I still feel there can be a problem in the school in which they may exit, because there would be a loss of dollars in that school if the parents perceive that school to be less than effective, if they leave school A to go to school B. We would still have the problems in school A with less dollars, because the dollars in some way will follow that child as they go to school B. I still worry about that.

Then I worry about, in general, children going from one school to another and leaving again, not just Chapter I, but leaving school A to go to school B. What do we do with the students back at school A who may be the students most at risk?

Mr. **Sanders**. Well, they may or may not be the students most at risk.

Mr. **Kildee**. I will tell why I think they might be, Mr. Sanders and this is very practical. I taught school for 10 years and I taught at an innercity school. Very often those who might make the choice to leave—and it is usually a parental choice, not a student choice—come from a family that is a little more stable and they will make that choice, and a little bit more interested in education and they will make that choice. And the family that is more dysfunctional is less likely to make the choice.

It would seem to me that you are going to have a greater concentration of educational problems back at that school A, where the parents are not exercising that choice. Because we do have, you know, in certain areas of our country, some real dysfunctional families, or those that are not functioning as well as they could. Those that are functioning better are the ones most likely to make the choice to go to school B and leave school A.

I think we leave a greater concentration back at A of those who really have problems.

Mr. **Sanders**. I think, Mr. Chairman, we might also see with this kind of a measure that if the school, itself, does not address maybe the problems in the school that prompted the parent to believe that they could get a better education at some other school, to reflect and to adapt their own program if they have a significant exit of students, that it is very, very likely that the local board will, indeed, focus its attention there.

I remember a conversation a couple of years ago with Bob Peterkin, who was then the superintendent in Milwaukee, that one of the things that their choice program there—and I am not talking about the current program and the movement to private schools, but their program that existed before that—provided a very, very good indicator of where they needed to be focusing their attention to improvement.

So it may very well be that the students who are left behind 'might well see significant improvement in the school, because an exodus of students would focus attention on the school and bring improvement.

Mr. **Kildee**. Where would the money come from for the improvements, they are going to be losing money. As Chapter I, they are going to be losing money in that type of school, they are going to be losing money.

Mr. **Sanders**. Well, Chapter I is only a part—a very, very small part—of the overall funding for a particular school and while oftentimes improvements do, indeed, cost money, not all improvements do. Oftentimes, reallocating resources and doing things differently using the same resources that we have bring improvement.

Mr. **Kildee**. I really think there is some basic—I really worry, again, in my rhetoric, and my thoughts about that school A, where the students are exiting from. I don't think we've really properly focused on the problems that we could create there. I think that's one of the things that Mr. Goodling, and I will be focusing on in the Education and Labor Committee. We don't want to exacerbate a problem by having students exit.

It's almost related to testing, too. You can predict, because of demographics, crime, homelessness certain schools are going to do better on tests and other schools are going to do worse on tests, right? Maybe I don't really need a real precise instrument to determine that.

I think that we have to concentrate some of our dollars on those schools at risk and those students at risk in those schools. I don't really see that addressed yet, and I know we are still in flux. Fortunately, one of the things about the Secretary, Mr. Alexander, is that he is flexible, but I don't see what quite addressed yet, how we address the schools at risk and the students at risk.

Mr. **Sanders**. Mr. Chairman, I think in a couple of ways. One, in looking at the strategy, the strategy recognizes that already there are several significant, even Federal, programs that focus on the needs of children who are most at risk. We just talked about Chapter I. It is the great program of our elementary and secondary budget, as Pell is for our postsecondary budget. And we have every intent that it continue to exist, as well as support for students who are disabled, and therefore, at risk, as well the English-proficient and so forth.

Mr. **Kildee**. May I say this, the Pell grant, the purpose and design of the Pell grant is not to improve education in a particular college. It may have that effect, because they will have more money coming in. But the purpose of a Pell grant was to assist the student financially.

Now, the purpose of Chapter I is really to help that student there, but to elevate the quality by, for example, having the reading specialist in that school. You are really talking apples and oranges there. A Pell grant is to financially assist a student. I think your analogy between Pell grants and Chapter I has some serious deficiencies.

Mr. **Sanders**. You need to look at the larger set of proposals, Mr. Chairman, that we are requesting in choice. The Chapter I proposal is not one intended necessarily to derive to additional choice programs. On the contrary, it is rather to recognize that where they exist, these services ought to follow the children. We are asking for both the incentive and probably, more importantly, the $30 million for demonstration programs, so that indeed, through those demonstrations we work out and address the issues that you raise, as well as demonstrate the effectiveness of choice policies used for the purposes of improvement.

Mr. **Kildee**. Let's see, Mrs. Bentley.

Mrs. **Bentley**. Thank you, Mr. Chairman.

I only have one question I would like to ask at this point. Mr. Sanders, you have these figures on the comparable spending per pupil of the United States versus other industrialized countries, ala Japan and Korea, et cetera.

Mr. **Sanders**. I don't have it, Mrs. Bentley, at my fingertip, but it does exist in the Department, yes.

Mrs. **Bentley**. Would you supply it——

Mr. **Sanders** [continuing]. And Ms. Christensen may have it even with her today, probably she does.

Ms. **Christensen**. I do not, but we will be happy to supply it for you.

Mrs. **Bentley**. Do you have any idea, off the top of your head, whether we are spending more per pupil than in Japan or Korea, where they are beating the heck out of us?

Mr. **Sanders**. My recollection of those data, Mrs. Bentley, if you are talking about comparable dollars spent, yes, we are out-spending those other countries, significantly.

Mrs. **Bentley**. Per pupil?

Mr. **Sanders**. Per pupil.

Mrs. **Bentley**. But we are not getting nearly as much for the dollar as they are.

Mr. **Sanders**. Well, from what we know and our data are somewhat limited in that respect, we have a couple of international tests that have been given in mathematics and the sciences, and in each of those that have been done—and bear in mind we are using American achievement tests here, not Japanese or not Korean, we are using American tests, and American test items—they do outperform us, Mrs. Bentley.

Ms. **Christensen**. Mrs. Bentley, I would also point out that over the past 10 years, we have increased our total spending in this country by about 140 percent. And even after inflation it is somewhere around one-third to 40 percent. So it is not just the amount of money currently, but it has been increasing quite dramatically.

Mrs. **Bentley**. Then maybe what you are telling me is that we are not spending it wisely if we are spending much more, but yet, they are teaching their students so they are moving way ahead of ours.

Mr. **Sanders**. I think we would conclude that. In fact, I think all of us, by our actions, conclude that there may be better ways for us to spend our money to achieve significant improvement or we would not be back with new strategies and new legislation to attempt to do that.

Mrs. **Bentley**. I would like the figures, Mr. Chairman, the actual figures and——

Mr. **Kildee**. Yes, they could be supplied and we would make them a part of the record.

Mr. **Sanders**. Surely.

Mrs. **Bentley**. And any data you can provide for the Committee on comparable spending, comparable achievement, et cetera.

Mr. **Sanders**. All right, we will be happy to provide that.

[At time of printing the information requested was not presented for the record.]

Mrs. **Bentley**. Thank you, Mr. Chairman. Thank you, Mr. Sanders.

Mr. **Kildee**. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman. I have no questions.

Mr. **Kildee**. Let me ask you, you are probably not all prepared to do this but Mr. Gephardt introduced a bill yesterday that rewards in education. He would give, for example, between $500 and $2,000 to States for every additional first grader who meets certain health, nutrition and preschool tests of the readiness to learn, which fits into one of the goals there, actually reward them for those who bring those preschoolers up to certain standards.

It also will give the system rewards for those States where high school graduates exceed the international level in math and science. Do you think that type of incentive could play a role in trying to address the problems of education in this country?

Mr. SANDERS. Mr. Chairman, let me provide about three observations and then ask Mr. Manno to perhaps comment more specifically.

First of all, at least the two goals there are right, they are consistent with the national goals and something we very deeply believe we have got to be working toward.

Second, the idea of recognition and rewarding is certainly a part of the President's strategy and we believe absolutely necessary but not sufficient, in and of itself, necessarily to attain the goals, but nonetheless, very necessary.

And third, as I listen to the description of the bill it would also support the creation of at least some kind of a measure that would enable us to determine who is succeeding, so that they can be rewarded, and that's, indeed, what we are trying to do with the creation of the American Achievement Test.

Mr. MANNO. I think one of the proposals that we have as a part of the America 2000 Act in some way relates to what I have heard you describe, and what I only know through reading this morning's Washington Post, so I don't consider myself to be an expert on the bill.

Mr. KILDEE. That's all I know, for sure.

Mr. MANNO. But our merit schools plan, I think goes some way toward getting at this notion of incentives and rewarding incentives. And our merit schools plan is specifically tied into all six goals. So it is not that it specifically focuses on math and science, but it is a program that we propose that would provide rewards to elementary and secondary schools that demonstrate progress over at least a 3-year period.

Now, it is not a student reward plan, as you briefly described the Gephardt proposal would be, but I think the general notion about this rewarding of incentives, and focusing on results is one which would be very much in tune with the drift of some of our own proposals.

We also have in our package, and perhaps Mr. Sanders could describe this one a little bit more in detail, on the higher education reauthorization package, there is a reward to students related to Pell grants. You might want to mention that, too.

Mr. SANDERS. Correct.

It, again, embodies the same basic notion and that is rewarding achievement in this case, among our most needy students. It provides an additional $500 in a direct Pell award to them if they are, first of all, either a high achieving senior graduating for college, or one student who demonstrates a high achievement as they continue on through their undergraduate program.

We would want to, Mr. Chairman, I guess reserve some final judgment after we have been able to look very carefully at the bill, but the ideas seem very, very consistent, as we generally understand them, with the approach being advocated by the President and the Secretary.

Mr. **Kildee**. He does clearly address two of the goals that have been set up.

Mr. **Sanders**. Yes.

Mr. **Kildee**. I think, as I say, we really have an opportunity here to do something significant for education and that we have to work very closely together, because it will be our fault if we don't. If we have the White House and the Congress together at the same time eager to do something for education, I think it is incumbent upon us to take that eagerness and put it into programs.

I think that each side is going to have to give a bit, and I can see—I think Mr. Alexander brings great credentials to education, and also he tries to bring some consensus. Both sides feel firmly on certain things, but I think that neither side should get so stubborn that we just let things get away from us.

It is my privilege to call upon my Chairman, Congressman Panetta.

The **Chairman**. Thank you, very much.

I apologize for being late, there were a lot of things going on this morning, between caucuses and other hearings. Let me ask, obviously the big concern that has been raised about the whole issue of establishing this America 2000 strategy is that there are a lot of reforms but very few resources. And I guess the question I would ask is, do you really, legitimately think that you can advance education in this country without increasing resources to education?

Mr. **Sanders**. Mr. Chairman, if I might, I would first of all reflect on the experience of the last decade and upon what is the most necessary ingredient at this point in time, particularly as it relates to Presidential leadership?

I have reflected both in my prior and in my current position on the experience of the 1980's and the clear recognition that we have dramatically increased spending for elementary and secondary, as well as higher education across that decade—like 140 percent in real dollars, and roughly one-third in constant dollars.

Those were also the decade of the 1980's a period of reform also, but yet, every indicator that we have suggests that we have not, with those increased dollars and the reforms that took place in the 1980's, turned our current situation, in terms of outcomes, around. Therefore, what we ought to be doing first is to thinking very, very carefully about the appropriate strategy and then the necessary dollars that would implement that strategy.

I think the most important thing that we can be doing right now is the leadership in that strategy. I think the President and the Secretary have made an exciting and dramatic start. The summit in Charlottesville was a significant event. It marshalled a cohesive commitment on the part of the President and the Governors that led to the historic adoption, by them, of the national goals, the first time that we have ever done that in our history.

And almost every where you turn you see affirmation that those goals are right. Most of the States, in one form or another, have adopted them as their own. We see them reflected even as Mr. Kildee mentioned, clearly in Mr. Gephardt's bill. Everywhere you turn, you see a focus on those goals. That has been very, very important.

The **Chairman**. I have got to tell you that if we provided goals for the Defense Department, without any money for the Defense Department, that everybody, including the President, would probably say that that doesn't do a lot. Goals are great, and you can define goals, but unless you are willing to back up those goals with resources, it is not going to happen, it is that simple.

Mr. **Sanders**. Mr. Chairman, the Federal Government is the only financial supporter of the Defense Department. The Federal Government is only a small, a minor partner in the financial support and the policy direction of education.

The **Chairman**. Well, except you are talking about establishing national goals here. You are not saying, leave it up to the States and the local communities to establish goals, you are defining what those goals are going to be. You are defining what the model schools are going to be. You are defining what policy should be on a national basis. We always get accused here of mandating all kinds of things, and never providing the resources to back it up.

Now, you can define it any way you want, but once the President, and the Secretary of Education start defining national goals, and saying what the school system ought to do, and how it ought to perform, I don't think you can do that on the cheap.

Mr. **Sanders**. Mr. Chairman, I think the Secretary has very clearly demonstrated his willingness that if we can get the strategy right, he is willing to come and to advocate for the funds to carry out that strategy. I think you see the beginnings of that reflected in the 1992 budget.

The **Chairman**. I appreciate that and my hope is that there is the commitment there, because I look at the 1980's and we have been talking to a number of people in terms of briefings in preparation for this hearing. And if you look at where the Federal money has gone, it is targeted, it is not as if we are just throwing a pot of money out there.

Mr. **Sanders**. Correct.

The **Chairman**. It is very targeted in terms of the disadvantaged. And if you look at basic skill development among the disadvantaged, the fact is that that money has been pretty well spent. I mean I realize that we still have problems with dropouts, and I realize that it is not as good as we would like it to be and there are a lot of other deficiencies that we pointed to, but when it comes to basic skill advancement among the targeted groups that we are funding, not bad, by every measure, that I can see.

So I wouldn't just discard that, the funds that we have provided during the 1980's as somehow not having had an important effect with regard to those that were targeted for those funds.

And I guess it is for that reason that I think our commitment to resources, at least to those kinds of targeted groups is extremely important to maintain and advance as we go through the rest of the 1990's.

Let me ask you the other problem I have and there are parts of the America 2000 strategy that we ought to look at closely. But for the life of me, I think this model school idea in each district, I just can't, for the life of me understand the rationale of how that would work and how you would not wind up detracting from the other schools in a district. I don't want a model school in my district, very frankly that you have one school where everybody else is disadvantaged and you are pumping money into one school in order to improve it. How is this thing supposed to work? I mean what is the basis for this thing?

Mr. **Sanders**. Well, the long-term effect of the strategy hopefully will not be just one of these schools in each and every Congressional district. But that every community will want not just one of these schools, but want every one of their schools to be like this new generation of schools. The idea is that we must start somewhere after we have recognized that probably none of our schools are up to the challenges that we're going to face in the next century.

And that this starts us down the road to conceptualizing and developing the school that is going to be required in the next century, but every community will want one.

The **Chairman**. Why shouldn't all schools have an opportunity to do that?

Mr. **Sanders**. All schools would have an opportunity to do that. There's nothing to——

The **Chairman**. But they are not going to get $1 million.

Mr. **Sanders**. At least not right off in the first years of the program and maybe not just from the Federal Government. There may be sources elsewhere too. The Secretary clearly envisions that there may be a lot of communities that want these schools, hopefully, and that they will look to other sources to create these new schools for themselves.

The **Chairman**. Well, I guess it's not that you don't have examples of good schools to be truthful. I have examples of good schools in my district—some are private, and some are public. People know which ones are doing a good job and which ones are not. I don't need to establish another school, model schools so that others can look at. What other schools need is the ability and the resources to be able to do the same thing.

And it almost offends me a little bit that we would be committed to establishing what I would call certain elite schools in every Congressional district, as if somehow that is going to satisfy the problems of education in this country.

I think it has got to be a much broader target and I think it, frankly, does have to reach out so that schools that are in the most disadvantaged areas I think it would probably make a lot more sense if you looked at the worst schools in the district and tried to improve those, as your targets, rather than create some kind of model school that most of these schools are probably well on their way to being model schools in terms of funding anyway. What you have to do is to focus on the schools that are doing the worst job in terms of educating kids. Those are the ones that need to become model schools.

We really do have to understand that the key in this country has been, I mean the key to our whole system, the key to our whole democracy, the key to our whole ability to compete is the fact that we want equal educational opportunity for everyone, everyone, that's the strength of the public educational system. I guess I hope we don't lose sight of that in terms of the various goals that we try to pursue in education. It does have to be improved.

But let's not lose sight of the fact that our main goal is to give every kid a chance to get a decent education and not just those that happen to choose the right school, that happen to go to the model school or that happen to go to the certain private school. It has got to be all schools that we try to target on and that is a big mission. I think that's where we have to head.

You know, our challenge here is to try and look at the budget resolution for 1993 and beyond and I can tell you, very frankly, education is a centerpiece, for what we have to do in the future, and I hope the Administration feels the same way when it comes to the budget.

When it comes to rhetoric, all of us can put education at the top, but when it comes to the budget, in terms of how much we spend, education should be a centerpiece.

Mr. **Kildee**. Mr. Pease.

Mr. **Pease**. I thank you, Mr. Chairman.

Dr. Sanders, I would like to follow up on what Chairman Panetta just said. As you thought about it—I know you are still learning the game—but as you thought about it, where would the students come from for these model schools? Are they volunteer for the schools, is it like a magnet school? How would that work?

Mr. **Sanders**. Mr. Pease, that would be a community determination by whatever that community is that would become the America 2000 community. Our vision is that these schools are very much like the school populations like typical schools in that community. They have disadvantaged students, they have disabled students, they are not elitist institutions. They are typical to the community in which the school exists. A school could be an existing school and its current population. It could be a school that is created where parents volunteer to send their children.

Mr. **Pease**. Well, I was with Secretary Alexander this morning, and I got the impression that the schools by and large would be ones where parents would choose to send their children there. That does bother me a little bit. I think it bothers the Chairman, as well, because the parents, single-family parents of poor kids are not going to be tuned in to taking advantage of this opportunity the way that parents who are affluent will be. And if that is the case, then it is going to be pretty easy to create a model school.

I can tell you where the model schools are in my district. I have one school district that has tax valuation, property tax twice as high as the average and no minority students whatsoever. And they are the best schools in the district. They don't have the problems to deal with and they have all kinds of resources. I don't think it is going to do us a whole lot of good to create model schools if they're not set up in a way that we can replicate them throughout the district.

Mr. **Sanders**. Mr. Chairman, clearly, Mr. Pease, clearly the—first of all the Secretary very carefully avoids calling these schools model schools because that is not the way he envisions them. He does envision these schools as being typical in terms of their student population, that they serve. They are not elitist with only the brightest and the best of students, and only those schools that have achieved already high levels of success who are going on to just bigger and better things by virtue of this designation.

He sees them as in almost every circumstance possible in the country. And he does see them motivating other schools and leading the way for other schools to see like kinds of changes in their organization and their character and in their performance.

Mr. **Pease**. Well, that's very reassuring, but personally I would like to see these schools set up in such a way that they have to take as their student population the normal student population for that attendance area, rather than giving people the opportunity to come in from other attendance areas.

And I would very much like to see some of them developed in inner-city schools with high populations of minority students and high populations of students from single-family homes and that sort of thing.

Mr. **Sanders**. Likewise, we want to see them there, too, Mr. Pease. Very clearly we want to see some of these schools in those kinds of settings.

Mr. **Pease**. If I can shift to higher education for a minute? In your testimony you note that your Pell grant proposals provide increased support for all students while maintaining current levels of Pell support for less needy students.

In your budget submission for this year, did you ask for more money for Pell grants than you had in the past?

Mr. **Sanders**. Ms. Christensen, you want to comment on the actual—we do have additional dollars requested. We also accomplished much of our policy request there, through policy changes and in changed assumptions about what will happen with the economy during the period. And Ms. Christensen can break out much of these points for you, Mr. Pease, if she might, Mr. Chairman?

Ms. **Christensen**. Mr. Pease, what we have requested in our budget for Pell grants is a total of $5.8 billion, which is a $401 million increase over the 1991 appropriation of roughly $5.4 billion.

That is an increase of 7.5 percent which will target the increase, itself, to the poorest of the poor students where we have indication that the erosion of the dollar value has hit those students much more than any other level of income. And, at the same time, we are virtually holding harmless the other remaining Pell grant recipients in the higher income levels.

Mr. **Pease**. Let me get that straight. So we have $400 million increase and out of how much is that, you said a 7-percent increase, right?

Ms. **Christensen**. That is a 7.5-percent increase.

Mr. **Pease**. So of that for all of the students roughly 5 percent would go to cover inflation, that is actually inflation and tuition has gone up faster than 5 percent, has it not? My understanding is that colleges have raised their tuition rates an average of 7 to 10 percent. Wouldn't that be a case where all of your increase would be going into just covering the inflationary costs to these students?

Mr. **Sanders**. I think that also depends on whether you are talking about public or private institutions, too, about the percentages of increase, Mr. Chairman, and Mr. Pease.

Ms. **Christensen**. The formula provides for a percentage increase. The more important point, I think, is that the maximum grant that we are proposing will basically restore the purchasing power of the Pell grant that has eroded somewhat over the past several years.

For instance, in 1976–77, which was the first full year of implementing the Pell grant program, there was a $1,400 maximum grant and that covered 48 percent of public 4-year schools and 29 percent of private college costs. By 1991 to 1992 we were to the point where we covered approximately 30 percent of public and 15 percent of private 4-year college costs. But our proposal this year, for the $3,700 maximum grant would cover approximately 43 percent of public and 21 percent of private college costs, which is very, very close, virtually restoring the 1981–82 levels. So I think that is relatively significant. I would be happy to put this chart in your record, if you would like to see that.

Mr. **Pease**. I guess I wouldn't say that is virtually restoring them all, but it is certainly moving in the right direction.

I am trying to understand then, you are increasing the maximum grant and yet, you are going to target those with low incomes. You are going to try and put more grants in the hands of low-income students?

Mr. **Sanders**. That's correct.

Mr. **Pease**. And does that mean that you are going to put less——

Mr. **Sanders**. Well, a larger grant in the hands of low-income students, yes.

Mr. **Pease**. What about the numbers of grants, overall, do you expect to have the same number of grants, or a smaller number or a larger number?

Mr. **Sanders**. There will be fewer number of grants by about 400,000 because of the interaction of several other policies that we are recommending, Mr. Pease. And they distribute fairly evenly across the income levels. They do not singularly target any particular one. One of those is requesting a specific criterion for academic achievement levels if one is to continue receiving a Pell grant or to qualify initially for a Pell grant.

We also propose changes in the definition of independent student. That also has a dollar impact. So there are other policies that interact and on the bottom line reduce the number of actual recipients of Pell awards.

Mr. **Pease**. How many Pell grants will be awarded this year?

Mr. **Sanders**. Ms. Christensen, do you have that number?

Ms. **Christensen**. In the current year, 1991, we will award 3,421,000 and in 1992, our request would be 3,017,000, that is the minus 400,000 that we are discussing. But as Dr. Sanders said that is due to various factors such as our default initiative, and the minimum academic performance, and the definition refined and more targeted definition of independent students. That cuts across all income levels.

Mr. **Pease**. Well, so you are weeding out some students, making them ineligible for grants, who were eligible before. But there are still 400,000 fewer grants for the other students who might have wanted them but did not get them.

Is the Pell grant an entitlement program? Does every student get one who is entitled to one?

Ms. **Christensen**. No, it is not an entitlement program. There is a formula that provides that if you meet certain eligibility standards that students are entitled to it, but the appropriation level still determines the program level of the account. It is not strictly an entitlement program.

Mr. **Sanders**. In the sense, I think, that you are talking about, an eligible student will get an award. The amount of that award will be dependent upon the appropriation.

Mr. **Pease**. So even though you are raising your maximum to $3,700, no student may get the $3,700, is that right, depending on how many people apply and what your appropriation is?

Mr. **Sanders**. If the appropriation level is sufficient, there will be students who will get the maximum award.

Mr. **Pease**. But if there is not, do you scale it back on a prorated basis?

Mr. **Sanders**. In actual practice, we have not had a year where, in at least the 2 years that I have been here, Mr. Pease, where we have had to scale back the award. You have been very responsive in taking the actions necessary to maintain the full value of the award to individual students, no matter where they are.

Ms. **Christensen**. And our proposal this year will fully fund the Pell grant program, including less than half-time students.

Mr. **Pease**. If you will indulge me another minute, Mr. Chairman?

I am still trying to figure this out. Aside from the formula, you are going to have 400,000 fewer grants overall?

Mr. **Sanders**. We are going to have 400,000 fewer individuals who will be eligible because of the interaction of the various policies that we are talking about.

Mr. **Pease**. Does that translate into 400,000 fewer grants?

Mr. **Sanders**. Net effect, yes.

Mr. **Pease**. Well, that——

Mr. **Sanders**. We did not start out to say that we are going to reduce the numbers by 400,000; that was the effects of other policy decisions that had been made or are proposed.

Mr. **Pease**. I see, and you say you are going to increase your support for the most needy students. Does that mean you are increasing the dollar amount of the grant for each eligible needy student or you are going to try to provide more grants to needy students?

Mr. **Sanders**. For students who are eligible, Mr. Chairman, we are increasing the size of their awards. The maximum going from the $2,400 to the $3,700. If the student also happened to be a high achieving student, it would actually go to $4,200 with the $500 achievement award. Those would go to students, the maximum awards, you will find them for students whose families earn under the $20,000 mark.

Mr. **Pease**. Mr. Chairman, I think I have used more of my time than I should have, thank you.

The **Chairman**. Thank you, Mr. Pease.

Let me follow up on that. I guess my problem with this targeting of the Pell grants is what happens to the kids between $10,000 and $30,000, where do they go?

Mr. **Sanders**. Actually in terms of the average award, well, the students from families with incomes below $20,000 get a substantial increase in their average award. Students from families above $20,000 either get a modest or are basically held harmless. They do not significantly lose in their award. Additionally, for those middle-income families we are proposing also significant increases in our loan programs, so that there is greater access there.

As we looked at this, Mr. Chairman, every shred of evidence that we had suggested that targeting and focusing our attention on the lowest income students made the greatest amount of sense. When we looked at what had happened to the Pell award and the purchasing power across the last several years, it was clear that those were the students that were hardest hit. When we looked at the percent of family income——

The CHAIRMAN. I don't question that. I guess the problem is that in today's world families earning $20,000 to $30,000 are not what you would call middle-income families. I mean these are families that are struggling too. And I guess my question is, What do you say to those students? Where do they go?

Mr. SANDERS. Well, they have not been otherwise harmed by this, and in fact, they have been held——

The CHAIRMAN. Yes, but they don't qualify for Pell grants under your proposal.

Mr. SANDERS. Yes, they qualify for Pell grants.

The CHAIRMAN. But I thought the targeting was for children under $10,000.

Mr. SANDERS. For the significant increases in the size of the Pell award, and therefore, for the total dollars and its distribution, yes. But we have not eliminated the Pell awards for children from families who make $30,000. We have maintained or provided slight increases in the average award for those students.

The CHAIRMAN. But you are not expanding the pot, though, so essentially what you are doing is that you are scaling it down and pumping most of it to the children under $10,000. Is that a fair statement?

Mr. SANDERS. The number of dollars that we have got to use in deciding the level of the award is dependent upon both the $400 million increase and the interaction of the other policies which actually reduce the number of students who receive awards, whether it is the default initiative that we have agreed to with you, as a matter of policy, or in the other things such as setting an achievement standard that we are proposing.

The CHAIRMAN. Well, I guess bottom line—so that we can all understand each other—bottom line is that it is likely that the numbers of children receiving grants are going to be reduced.

Mr. SANDERS. There will be 400,000 students who would otherwise have received grants that will not because of policies that have already been enacted or that we are proposing as a part of the 1992 budget request.

The CHAIRMAN. My question is, What do we do with those 400,000 students?

Mr. SANDERS. They are eliminated from their eligibility by virtue of either the default initiatives, policies that we have already enacted, or by the——

The CHAIRMAN. What about the new children coming up? I know the ones you have already got on, but what about the new children coming up? What about the children that are trying to get into college to get the grant?

Mr. **Sanders**. Under our policy they will qualify if they meet the eligibility requirement, Mr. Chairman, and they will receive the Pell award.

Ms. **Christensen**. Mr. Chairman, I would also add that we are proposing to continue funding for the campus-based programs such as work-study and the supplemental educational opportunity grants, as well as the direct loan program which has substantial revolving funds at the institutions. There are considerable sources of funds, in other words, for grants and work-study, not to mention the State build up of revolving funds as a result of the State student incentive grant program over the past many years.

In addition, as Dr. Sanders indicated earlier, the guaranteed student loan limits are being increased substantially in all three of those subprograms in that area.

The **Chairman**. So just so I can be clear, then, based on your budget submissions, you feel you can cover all of the students that would presently be covered by grants or by student aid?

Ms. **Christensen**. Yes.

The **Chairman**. Under your budget——

Mr. **Sanders**. Under the policies that we propose, yes.

The **Chairman**. And under your budget submission?

Mr. **Sanders**. Yes, sir.

The **Chairman**. The dollars that are there would cover all of these. I want to talk to your bookkeeper because I need him for the budget, or her for the budget.

Ms. **Christensen**. Overall we could——

The **Chairman**. If you could squeeze blood out of that turnip, tell everybody, I would like to do it.

Everything our staff tell us and everything we are getting from Education and Labor is that we are looking at less children getting covered, and I mean their numbers get as high as 120,000 and I just am not sure where all of this meets. Because, again, my concern is that for a program that has been very important for giving children this equal educational opportunity to get into colleges, it's something that we ought to maintain, particularly for a competitive edge for the future.

Mr. **Sanders**. Absolutely, we couldn't agree with you more, Mr. Chairman. If you would like we would be happy to meet with your staff and make sure that our numbers and our assumptions and everything agree.

The **Chairman**. I would appreciate that so I could at least find out what the numbers are like, because everything we have seen, at least in terms of the proposed reductions in the President's budget, along with the proposed policy changes and some of the eliminations of some student aid, all seem to add up to much less being available.

Ms. **Christensen**. Let me just give you some totals that I think will show that that is really not quite the case.

The **Chairman**. All right.

Ms. **Christensen**. In terms of the dollars that we are requesting and that is budget authority, for the current year, 1991, we have $10.9 billion available. And we are requesting $12.6 billion for next year and this is for all the student aid programs. That is $1.6 billion increase or a 15-percent increase.

In terms of total dollars available as a result of this appropriation that we are requesting—and this is taking into account State matching funds and institutional matching funds, as well as the capital provided by banks in the guaranteed student loan program—the total amount available in 1991 is $18.4 billion. That would increase by 7 percent, to $19.7 billion so there are definitely, I think, respectable increases in the totals that we have put into our budget.

The Chairman. Let me see if it matches with what we are working with, which is—again, looking at your budget as presented, you are right GSL goes up. But for those in terms of the grant areas, everything I look at goes down. Work study goes down from $595 million to $397 million, your request. On supplement grants, it goes down from $520 million to $347 million. On Perkins loans, it goes from $156 million to $15 million. Am I right or wrong?

Ms. Christensen. It goes down by $15 million, but there are substantial revolving funds at the institutional—at the higher education institutions that still provide large amounts made available for those loans.

The Chairman. Do you think the revolving funds can cover the gaps here by virtue of these cuts? Is that what you are telling me?

Ms. Christensen. There will definitely be a decrease there without the increased Federal contributions coming in. But there will still be $707 million available for those loans, and they are highly subsidized loans. In the case of SEOG and work study we are proposing an increase in the matching requirement by institutions. They have been very successful in meeting those matching requirements over the past several years, and even when the institutions and the States have faced severe budget cuts, they have still been successful in meeting those matching. So overall the grant and work study programs would remain virtually level funded and the same number of students would be served under those.

The Chairman. If you take the State of California and based on what is happening to their State budgets, they are screwing them down pretty tightly. They had a $14 billion deficit in California. Do you think the universities there are going to be able to meet the gap here? They are all hurting, too, out there.

Ms. Christensen. They are, but as I say, they have been successful in meeting them in the past.

The Chairman. I am not so sure they are going to be successful at picking up the gap in the future.

Ms. Christensen. Both the Federal and State governments, I agree, have the same problem, and we had the problem obviously with the cost cap in the budget summit resolution last year.

Mr. Sanders. Mr. Chairman, in putting together this proposal to you, we had to make some very tough choices and set priorities. And you can see very clearly where they are: Increasing the size of the Pell, particularly for those who are of the lowest income and——

The Chairman. Yes. Listen, I don't quarrel with the fact that you had to make choices. We have to make those all the time. I just don't want to be told that you have made these choices and nobody is going to get hurt. To some extent, what you are telling me is you are going to have the best of all worlds. That isn't the case. The decisions you have made here mean that some people are going to get hurt. I think that is a fair statement.

Mr. **Sanders**. When we were talking earlier and responding to questions, Mr. Chairman, we were talking about the Pell and guaranteed student loans.

Ms. **Christensen**. We have also focused, or made those choices so that those who are more able to take some reductions would take the reductions and still be able to attend college. We don't think that our proposals would result in anyone not attending college who would be able to go. And as I mentioned before, we have substantially increased the loan limits for those students, especially Pell grants. Many of whom get maybe $200 to go, they could certainly increase their loan amounts to that, not to mention the community colleges and these low tuitions in public college.

The **Chairman**. I used to serve in the old Department of Health, Education, and Welfare, so I know what you have to go through, what you have gone through, and I know what OMB tells you you have to do. I understand what you are trying to do. My quarrel isn't with you. You are handed a certain amount, and you are trying to screw things down. You have got to make these choices, and that is unfortunate.

I guess my bigger concern is with the broader priorities because I don't think this is the place where we ought to be screwing down, very frankly, when you look at other priorities in the President's budget. I have a real problem, as you know, with the amount of money we are pumping into the space station when we have these kinds of problems taking place. You know, there is a time when they have to make tough choices, too. You had to make tough choices based on what they allot you.

But I will tell you right now that I would much more prefer to fully support these student loan programs in terms of children and their opportunity to get ahead, because we aren't going to have space stations or any kind of stations unless we have children who graduate from universities, who have a decent education. And this is the key for that.

So I guess my quarrel, as I said, is not with each of you. It is with the broader priority judgments that you are handed because I think, frankly, this ought to be a principal priority, and you ought not to have to make choices between children whose families make over $10,000 and those who make below $10,000. Those are not the ones we ought to penalize in trying to make these judgments.

I appreciate your coming here and the testimony you have provided.

Mr. **Sanders**. Thank you.

The **Chairman**. As I have said, for us the major task here is what kind of budget we want to present in 1993. We are going to have constraints in 1993 under the budget agreement. You think this year has been tough? I am sure you have already gotten the message 1993 is even tougher in terms of outlays.

Mr. **Sanders**. We are aware of that.

The **Chairman**. So we are going to have a much tougher time this next year, which just means that we are going to have to make tougher choices. But as I said, education in my book has to be a centerpiece for this country if we are going to compete with other nations. I hope that in working with you we can develop that kind of centerpiece because it really is important for the future of the country. And I know all of you believe that; it is just that in terms of the resources you are handed, you have got to make those choices. But from our perspective, this is a priority area. This is a priority area, and it is above a lot of other areas that we have got in our budget when you have to make those choices.

Anyway, thank you again for your testimony. I appreciate it. My best to the Secretary.

Mr. SANDERS. Thank you, Mr. Chairman. He and the rest of us are anxious to work with you, too.

The CHAIRMAN. Thank you.

[Whereupon, at 12:20 p.m., the Committee was adjourned, to resume again on Thursday, January 25, 1991, at 9:30 a.m.]

ELEMENTARY, SECONDARY, AND HIGHER EDUCATION

THURSDAY, JULY 25, 1991

House of Representatives,
Committee on the Budget,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room 210, Cannon House Office Building, Hon. Leon E. Panetta, Chairman, presiding.

The Chairman. The House Committee on the Budget is in session for purposes of a continuing hearing on the issue of education.

Yesterday was primarily elementary and secondary education, although we covered some higher education issues with the Administration. Today, the principal focus is on higher education.

This is a series of hearings we are having on a series of issues that we feel are important to focus on as part of the development of the budget resolution, not only for 1993 but also the budget directions for the remainder of this century.

I believe very strongly that education, elementary, secondary and higher education, has to be a centerpiece, a key centerpiece to the budget approaches for the remainder of this century if we are going to be a Nation that is going to compete in today's world.

We considered secondary and elementary education and heard the urging of the Council for Economic Redevelopment to redefine education as a process that begins at birth and comprises all aspects of a child's development. So today we are going to try to move to the other end of that educational spectrum.

Our first panel will offer views on three separate and very much interrelated, interconnected aspects of the postsecondary education system in this country: Federal financial aid, access to higher education, and the quality of that higher education.

Federal financial aid to students consists of a mix of grants, guaranteed loans, and some direct loans. Pell grants are made on the basis of need and up to a certain income point, federally guaranteed loans, both the subsidized guaranteed student loan program and the unsubsidized program are available to many students regardless of risk. Perkins loans are made directly by the Government.

There have been suggestions that doing away with guaranteed loans originated by financial institutions and moving to direct loans originated by educational institutions might be more efficient and perhaps cheaper. And we will hear opposing views on that question.

The Administration wants to increase the amount of individual Pell grants, but restrict the program to the poorest of applicants. As we will hear, even families considered middle income by Federal standards are having a more and more difficult time in meeting educational costs, particularly in States with high living costs.

Restricting Pell grants could seriously affect that second aspect that we will consider, which is access. Many students could be excluded from attendance at postsecondary institutions just by the inability to have financial assistance. In fact, the need might be to ensure greater access.

We talked yesterday of the possibility of some kind of dedicated education tax, part of which might be used to expand Federal aid for higher education.

The third aspect, the quality of higher education, seems directly related to the major element in cost of Government loan programs. That is the loss caused by the high rate of defaults on these loans.

By far, the greatest number of loan defaults comes from students who attended proprietary institutions such as trade schools, which offer no academic degrees. Those students are likely to be the most at risk in terms of both educational achievement and income earnings prospects. Too often, such institutions may be deficient in quality of education, not offering the type of training that enables students to find productive jobs that will support the repayment of the loans.

As a result of the Budget Reconciliation Acts of both 1989 and 1990, it is believed that hundreds of such suspect proprietary institutions have already been closed. We will hear a proposal this morning to tighten State supervision over the quality of education offered by both academic and proprietary institutions.

The witnesses testifying on our first panel are Bruce Johnstone, the Chancellor of the State University of New York; Donald Nolan, who is Deputy Commissioner of Higher and Continuing Education of the State of New York; Nancy Coolidge of the Office of the President, University of California; and Charlotte Fraas of the Congressional Research Service.

Following their testimony, we will hear from William Brock and Roberts Jones about whether we are providing the schools with the foundation to meet the demands of the modern workplace.

I would like to thank all of the witnesses for taking the time to be here. This is, as always, an exploratory hearing to try to see if we can find better directions for the use of resources in the education area.

We have continually confronted the issue of the need for continuing resources, but we also have to confront the issue of what reforms have to be put in place to ensure that those resources will be used well. For that reason, we look forward to your guidance and testimony.

Your statements will be made part of the record and you may read from them or summarize them as you wish. Dr. Johnstone.

STATEMENT OF D. BRUCE JOHNSTONE, CHANCELLOR OF THE STATE UNIVERSITY OF NEW YORK (SUNY)

Mr. JOHNSTONE. Thank you, Mr. Chairman.

I would prefer to only summarize my testimony. I think in the interests of time and efficiency, I would like to say a few key points about it and hope there may be some questions or discussion at the end of this.

I have been thinking and writing and speaking about student loans for 20 years. My background is as a theorist of higher education finance, on how to balance the cost burden between parents and students and taxpayers.

I have the dubious distinction of being the only person to have written a book about income contingent loans, spectacularly poorly read, but it has been available for nearly 20 years for all who have cared to understand better this particularly complex topic. Current Administrations especially, however, have not read it.

I also have spent time in recent years studying higher education finance in an international comparative perspective. I have found valuable lessons, in looking at our own system of finance, to know something about how the Japanese and Germans and Swedes and Brits do it.

I would like to focus this morning, though, on what I was asked to do, which was the direct loan concept, by which I take it to mean loans being made available directly by colleges and universities in a matter more similar to the Perkins loan program, and dollars somehow being made available by the Federal Government, rather than being made by banks and guaranteed by the Federal Government, as with the current Stafford Guaranteed Student Loan program.

The essential question, I think, which I do attempt to put in a paragraph on the bottom of the first page of my testimony, asks whether what I assume to be the Congressional goal of federally supported student lending—namely, to make dollars available to students on some equitable basis, without risk rating, in order to make higher education more accessible—at a cost to the taxpayer which is substantially less than would be the case were the same dollars to be made available in an equivalent grant program.

The question, then, before me today is whether making those dollars available as we do currently, substantially through commercial bank origination, is more or less efficient than making those dollars available somehow originated by the campuses directly.

I want to focus on what I believe to be the essential generic differences between direct lending and commercially originated guaranteed lending and to urge you, Mr. Chairman, and your colleagues to at some point address these generic differences without the distractions of, for example, the interest rate differential between Perkins loans and Stafford loans—which differential, of course, could be changed tomorrow if Congress wanted to.

Or without being distracted or confused by the magnitude of, or differences between, the subsidies, which also can be changed; or the differences in borrowing populations or their demographics predilections of defaulting—all of those, again, being functions of a variety of things, but not of the essential generic originator of the loans.

I also think that the on- and off-budget costs have been, until now, generally distractions. We are coming to a point where I think we can view the Federal taxpayer's liability in student loans of whatever kind represented by the cost of subsidies, preferably expressed in the present value of the stream of subsidies, and the cost of making good on defaults, again, expressed in the present value of the future flow of assumed defaults. My point, once again, is that the question of who originates or how it originates is irrelevant to those calculations of ultimate Federal taxpayer liability.

I hope we also don't get too confused by other issues that are essentially Title IV policy issues: Whether there is too much or too little borrowing, or too much borrowing in the freshman year, or whether proprietary schools should be in or out of the game.

Those are all important questions; but, again, they have little or nothing to do, other than confusion and distraction, with the fundamental, generic issue of direct university-originated lending versus commercial bank-originated guaranteed lending.

So I spent a lot of time, Mr. Panetta, in my paper on caveats, but I think they are important caveats because I rarely heard the topic discussed without those, in my opinion, distractions and confusions.

At the middle of page 3 of my testimony is where I come to what I think is the essence of my message to you and your colleagues, which is to ask those considering this question to cease conceiving of student lending as a single act or a single process performed by a single agent, bank, institution, whatever else, and to begin conceiving of student lending as a very complex process involving five very distinct processes, each one of which in turn is performed by various combinations of quite distinct agents.

Very simply, the processes are, first, origination: Somebody has to give the loan, to say, "Here, student, you get this much, and here it is." Second, someone has to bear the risk of default. That, to me, is the essence, actually, of lending: Bearing risk. Indeed, if you borrow from me, and your colleague with abundant collateral cosigns the note, it is not clear who is the lender. I actually think it is your colleague whose collateral is at risk, not I, who happened to have some cash that I was willing to lend at the rate you would pay rather than the rate I could earn elsewhere.

I would submit that once risk is entirely borne, that the third function, providing capital, is almost insignificant. There is no difficulty in securing capital for riskless paper.

A fourth function is subsidizing the interest rate, and a fifth function is servicing the loan.

The point of this perspective, Mr. Panetta, is that very different agents can play and must play these quite different functions of lending. I would submit that where commercial banks in the Stafford program are clearly involved in origination, they cannot do it alone. They must do it in conjunction with colleges, with enormous regulations regarding the terms and conditions of the lending. It is hardly a free origination done by banks.

I would submit that only the Federal taxpayer can really bear a risk of default. I would further submit that only the Federal taxpayer can bear substantially whatever subsidies the Congress in its wisdom chooses to assign to a loan.

I would submit that capital, once risk is borne by the Federal taxpayer, once the subsidies have been handled, is going to come from the fundamental capital markets, which are pension funds and trust funds and large primary savers, and that this capital will get channeled into the hands of students vis-a-vis a variety of intermediary mechanisms.

We often think of banks as providing capital, but this year, New York banks will sell $1 billion of student loans to Sallie Mae. They have been more of a passthrough between Sallie Mae and primary capital sources, and the students. So provision of loan capital, I think, is often mistaken as being the fundamental essence of lending.

Finally, servicing the loans can be done by anybody with a big computer. Banks are pretty good at that. But a bank does not have to service its own loans and it is quite capable of servicing loans it doesn't own.

The point of all this, Mr. Panetta, is that direct lending is really the question of which agent or agents we involve in the origination of loans. And seen in this light, I believe origination ought to be mainly in the hands of colleges and universities, which are already deeply involved in certifying financial need and attendance, and in packaging other sources of financial aid, and that there seem to be no particular advantage, especially were we starting de novo, which I grant we are not, to involving banks in the origination function, which they cannot do completely anyway.

If I were conceiving of a simple and rational loan program—again, were we beginning anew, which we are not—it would be for students to apply to colleges for some kind of financial assistance, some component of which would often be a loan, which loan would be guaranteed and perhaps slightly subsidized by the Government, and available and repayable on rates and terms as prescribed by law and regulation.

Eligible universities would then originate the loans, would sell as quickly as possible, perhaps in advance, to something that would look a lot like Sallie Mae. Call it a national student loan bank, if you like, but this entity would essentially purchased guaranteed notes from the campuses, and in turn use those to collateralize its own paper to tap the primary savings sources. I would prefer to have this national student loan bank service all the loans.

A few colleges and universities might prefer to do their own collections, but they would have to bear some due diligence risk in order to be allowed to do so. Some substantial part of the capitalization and the servicing I think should be contracted directly to qualified State agencies or possibly put out to bid to private secondary market loan servicing agencies.

Commercial banks I would see having no role in loan origination, but potentially major roles in loan servicing by contract, or potential major roles in providing loan capital by purchasing the paper of the secondary market. Maybe then, in addition, you could employ the IRS to collect. Maybe, if you would like, you can have income contingency. Perhaps you could tap into Social Security. Possibly you could do other things.

But those are all, I believe, utterly subsidiary to what I think is the fundamental question of who or what, as between the colleges themselves or the commercial banks, should originate the bans, and how should the accounting system reflect the true Federal taxpayer costs.

My sense is that moving student lending more toward origination by colleges and universities is sensible, because I think it is more efficient, more effective. It uses the financial aid apparatus that we have on universities and colleges. It could use effectively the by-and-large very effective State guarantee agencies. It would move federally sponsored student loans away from commercial bank origination, where it has never resided in complete comfort, but keep the banks involved as a provider of capital.

The model that I have described really is not a Perkins loan model. It is rather, more like the old FISL model, the old federally insured model, where certain universities and colleges were allowed to become lenders within the student loan program.

To ask, "Are we going to have a guaranteed student loan program or not?" I think, is a misleading question. If guarantee means bearing risk, only the Federal taxpayer can ever bear the risk on what are fundamentally risky loans unless we choose to stop making loans available without risk rating, available only to whomever banks feel comfortable doing business with, and that is a whole vastly different policy issue that I think is not a budgetary one.

I would hope the Congress would not move in that direction. I would hope it would continue making loans as available as equitably and as without risk rating as possible, and that the Congress would seriously consider a program in which a substantial number, preferably a sampling of different kinds of institutions would be allowed to originate guaranteed student loans, passing the paper on immediately to Sallie Mae, divesting themselves therefore of servicing responsibilities, which they cannot do well, but retaining that all-critical origination in the hands of the institutions and their officers.

That concludes my testimony, sir.

[The prepared statement of Mr. Johnstone may be found at end of hearing.]

The CHAIRMAN. Thank you very much. Dr. Nolan.

STATEMENT OF DONALD J. NOLAN, DEPUTY COMMISSIONER FOR HIGHER AND CONTINUING EDUCATION, NEW YORK STATE EDUCATION DEPARTMENT, REPRESENTING STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION

Mr. NOLAN. Chairman Panetta and distinguished Members of the Committee, thank you very much for giving me this opportunity to talk with you this morning about reauthorization of the Higher Education Act.

I serve as Deputy Commissioner of Higher and Continuing Education of the State of New York, but I speak to you today on behalf of SHEEO, which represents the 50 executives of statewide higher education coordinating and governing boards across the Nation.

SHEEO seeks your support for a major reform to Title IV of the Higher Education Act, one that would protect the large Federal investment in student assistance by allowing the States to be the approving agencies for institutions that receive Title IV funds.

In my written testimony, I lay out some facts and figures, and I review briefly what you have already heard from a variety of sources about problems associated with Title IV. I don't want to go into those matters in the brief time that I have today. I prefer to direct our collective attention back to the basic purpose of Federal student aid, which is to provide access to postsecondary education.

One thing is clear. Thanks to you and your colleagues in Congress and your predecessors, Title IV is providing access. We can argue about the details, is it enough access, it is for the right people, but it clearly is providing access.

The issue then is, access to what? I believe your expectations are the same as ours. We all want and expect access to a quality education. The question is, Are we achieving that goal through Federal student aid?

In my judgment, far too often, I am sorry to say, the answer is that we are not. So how do we together assure that Federal student aid dollars are spent at institutions that meet standards of quality?

Currently, the Federal Government relies on three measures to determine a school or college's eligibility to participate in Title IV programs, and it might be a good idea this morning to review those briefly.

First, the institution has to demonstrate to the Secretary of Education its ability to manage and administer the Federal aid programs entrusted to it.

The second, is that the institution must be licensed or otherwise authorized to operate by the State in which it is located.

And third, the institution must be accredited by an association or an agency recognized by the Secretary as a reliable authority in judging what constitutes satisfactory education and training.

From my vantage point and that of my colleagues in far too many other States, the current system, which is supposed to assure quality, just isn't working. Too many students aren't receiving the education they enrolled to pursue. Too many are not completing in a timely manner. Too many of them who do complete are ill-prepared for their chosen job or profession or graduate study. Too many are the victims of school closures in the middle of their studies, with loans they didn't know they had taken, with debts they were unable to pay.

The Government is estimating defaults in excess of $3 billion for fiscal year 1991. I know you will hear more about that later.

The Congress has worked to curb loan defaults during the past decade. I note there are 17 pieces of Federal legislation enacted to address defaults during that period. There have been other important adjustments made to improve the system. But as important as these efforts are, we in SHEEO believe that the one way to offer long-term protection to students and Federal taxpayers is to encourage the States to serve as the agencies that assure the integrity of the institutions and programs receiving Title IV funds, all done in partnership with the Secretary.

This approach is a major feature of the integrity in the Higher Education Act of 1991, which was introduced in June by Representatives Goodling of Pennsylvania and Lowey of New York.

Our research indicates that within the past few years, many States have enacted laws to protect their students from fraud and abuse, especially at vocational and trade schools where most of the abuses have been uncovered and where Title IV funds comprise the final funding source. I note California and New York as two examples where this kind of legislation has occurred.

However, several shortcomings do remain. First, the function of State oversight for noncollegiate institutions often rests with a secondary, not a postsecondary agency.

Second, the funding for enforcement has been limited because of the lack of priority given to oversight activities by the secondary agency.

And third, many States continue to emphasize business and financial practices rather than broader concerns with educational effectiveness, which is of essential concern to many Federal and State policymakers.

The proposed integrity in higher education legislation offers an alternative that would save the Federal treasury much more than it would cost to implement, and in our view, is the best hope for assuring long-term accountability in Title IV programs.

What would this legislation do? Well, it would authorize the Secretary to enter into agreements with the State, to establish a State postsecondary approving agency. The Secretary would provide funds to the agency to review and approve postsecondary institutions and programs for purposes of Title IV eligibility.

Each postsecondary approving agency would be the single contact point with the Secretary for that State, regardless of how many separate agencies actually performed review and approval functions for the State.

The legislation spells out those areas in which State standards would have to be established. These standards would be developed in consultation with the institutions of the State, and they could be different for different classes of institutions within the States.

The States would be reimbursed for their approving activities with a cap of 1 percent of the total Title IV appropriations. We see this is a risk management effort well worth taking.

Will our approach increase the chances of the federally aided student receiving a quality education? We believe it will.

Among the standards that participating States would be required to develop, and again I emphasize in consultation with the affected institutions, are those that deal not only with the conditions of education, but also the result of the educational program.

Let me put that another way. An institution that wanted to be found eligible for Title IV would have to meet published standards for such areas as adequate finance, facilities, faculty, curriculum, student support services, all the things that we now do, and it would have to demonstrate that the achievement of its students is of sufficient quality that it provides satisfactory education and training.

Many States have addressed the issue of postsecondary educational integrity and quality in recent years, with mixed results. Let me briefly describe what has happened in the State that I know best, New York.

Our board of regents has sweeping powers to review and approve all levels of postsecondary education offered by all types of institutions: Public, private nonprofit, and proprietary. Among our degree-granting institutions, our review activities have consistently led to program improvement and in some cases discontinuance.

We have strong initial approval procedures, and that serves to deter the establishment of weak programs. And despite these strong regulatory provisions, we have been able to work collegially with our nearly 250 colleges and universities, many of which are world class institutions. I am joined by my colleague from one here today.

New York has separate standards for schools that do not offer degree credit instruction, namely, the occupational, trade, vocational and technical schools that are primarily nondegree schools but they are for-profit corporations. Last year our legislature strengthened our authority to regulate these schools and that new system is working quite effectively without limiting access.

So why turn to the States to assure quality? I think there are several good reasons.

First, the States are closer to the action, and since problems that affect their residents are more likely to get attention, they will provide vigorous oversight.

Second, we believe it is in the national interest to ensure strong oversight by a Governmental body that is responsible to the public. The States can do just that.

And third, the States are willing to assume this responsibility.

In our view, the Goodling-Lowey proposal is central to the restoration of public confidence in the integrity and quality of postsecondary institutions whose students receive Federal assistance. We believe that students and taxpayers will be better served through the enactment of this legislation.

I thank you very much for your attention, and look forward to your questions.

[The prepared statement of Mr. Nolan may be found at end of hearing.]

The CHAIRMAN. Thank you. Before we proceed with testimony, we have a vote, and I would like to go ahead and call a brief recess in order to get that vote, so we will reconvene in about 10 minutes.

AFTER RECESS

Mr. DURBIN [presiding]. I would like to welcome the panel to return. At this point, I believe, Ms. Coolidge, it is time for your testimony. We welcome your attendance here today. Please proceed.

STATEMENT OF NANCY COOLIDGE, PRINCIPAL ADMINISTRATIVE ANALYST—STUDENT FINANCIAL SUPPORT, OFFICE OF THE PRESIDENT, UNIVERSITY OF CALIFORNIA

Ms. COOLIDGE. Thank you, Mr. Durbin.

Good morning. I am Nancy Coolidge, Principal Administrative Analyst—Student Financial Support, at the Office of the President of the University of California. The Office of the President is the systemwide administration for the university, which comprises nine campuses and enrolls 160,000 students.

On behalf of the university, I thank you for providing me this opportunity to address you on topics related to student financial support and the reauthorization of the Higher Education Act of 1965.

This morning I want to focus on a number of student support issues that are of particular importance to the university: The affordability of postsecondary education for low- and middle-income students, the cost to institutions of administering student support programs and student support for graduate students.

The university's needy undergraduates rely on Federal financial aid for access to a university education, and grant support for the neediest students is the cornerstone of this opportunity. The preservation of the grant programs and a restoration of the purchasing power of the Pell grant, therefore, must be essential tasks for the upcoming reauthorization.

I want to turn to a discussion about the university's growing concern about those individuals who do not quite qualify for need-based Federal financial aid and are finding it increasingly difficult to finance education. Students in California and other high-cost states are disadvantaged in establishing their need for financial aid to help meet the cost of attending a college or university.

Congressional methodology recognizes differences in income, but does not place much emphasis on expenses. A family of four living on a $40,000 income in San Francisco is not likely to be able to contribute as much toward college costs as a family of four living on the same income in a lower-cost city.

But the Federal means-test would require each of these families to contribute the same amount of money toward the cost of their child's education. In California, we are hearing more and more from families that are considered "middle-income" by Federal standards, but who, after trimming their spending, reducing their standard of living, and taking out loans, can barely meet the cost of education at their own State's public universities.

The lower-middle income families that are just over the financial aid eligibility threshold are particularly hard-pressed. They have few or no assets to draw upon to lever cash or credit to pay for college. In major cities and suburbs in California, families of four with $40,000 incomes do not often own a home, particularly if they are trying to buy them in recent years.

If they should be so fortunate as to purchase a home, they do not have enough unencumbered cash to be eligible for many loans. Among lower-income students already enrolled at the university, most are working. Many are borrowing. But all complain that they feel a need for additional support to help reduce the financial pressure they are under.

We encourage our students to limit their work, if they are full-time students, not to work more than 20 hours a week, because we have got evidence to demonstrate that work in excess of 20 hours usually means a reduced credit load and also extends their time in college, which is not necessarily cost-effective. Work in excess of 20 hours a week is also associated with poorer performance, which affects our students' ability to compete for graduate school. Admission to such programs is very important to most of our students.

So we feel most of the people on financial aid are at capacity in terms of how much they can work and make a contribution to their own support. Among families who are looking to the future and trying to gage whether they can send their children to the University of California, many are frustrated to learn that they are not officially needy, when they are well aware they cannot produce the $11,000 or so that it costs for a California resident to attend the university. Of that $11,000, about $2,500 is tuition and fees, and the rest is living expenses in California.

We all need to be concerned that this gap between costs and resources may be affecting college choice across the country. There is more and more discussion of the fact that students are downsizing their dreams of attending the college most suited to their goals because they and their families just can't afford it.

I was asked recently about access and whether or not the sorts of problems I am describing would actually prevent access to postsecondary education for these lower middle-income families who do not qualify for aid. While it is true that in California we have an excellent access system in our community colleges, it is also true that the highest risk students who are eligible for admission to the university when they graduate from high school are not as likely to persist to a bachelor's degree if they attend a community college rather than enter the university as freshmen.

As you may be aware, California will not be able to maintain its own current level of support for postsecondary education during this new fiscal year. As part of an overall plan to deal with a significant reduction in our State's budget for the university, we have been forced to raise the student fees by $650. This increase will exacerbate the problems of families who are just above the cutoff for need-based aid.

The university has created a separate new financial aid program in order to cover the cost of this fee increase for all needy students. This program provides a combination of grant and loan support to students with the neediest students receiving full grant coverage and the slightly higher income students receiving a combination of grant and loan.

In response to the increase in requests from families who do not qualify as needy by Federal standards, we are also exploring the possibility of establishing a minimally subsidized loan program that would provide another source of loans for students who do not qualify for need-based grants and subsidized loans under Congressional methodologies.

Part of the development must include the provision of additional resources to provide some level of subsidy to assure that these moderate-income students I have been speaking about are not squeezed out of a university education if they are otherwise prepared to participate.

The Administration's current proposal to limit Pell grants to students and families with incomes less than $10,000 goes too far. We have examined our data and suggest to you that almost 10,000 students in our university would be eliminated from the Pell program.

Forty-two percent of our dependent undergraduates would no longer be eligible for Pell grants. Many very needy students will be excluded if this suggestion is adopted.

In addition, as current congressional proposals suggest, more needs to be done for the moderate and middle-income family. I would suggest, therefore, that Congress take this reauthorization opportunity, spread the Federal subsidy more broadly by establishing a sliding scale that would target the greatest subsidy to the poorest students in the form of grants, while maintaining some level of subsidized support for a greater range of students and families. Although the interest may not be fully subsidized, guaranteed loans should be available to students with higher incomes.

The second topic I want to bring before you this morning concerns an area of student support that does not receive as much press as Pell grants and guaranteed loans, but is nonetheless extremely important to the university and to the country as a whole, the support of graduate students in general and of doctoral students in particular.

The University of California plays a key role in the education of doctoral students. Ten percent of the Ph.D.s in our country are from the University of California. The vitality of our national economy and our ability to compete in the worldwide marketplace are tied to continued excellence in graduate education.

The United States is on the brink of a real and potentially damaging shortage of college and university faculty. This shortage will affect education and research at all levels. It will be felt in community colleges, private colleges, and in universities. It will affect the education and training of the Nation's elementary and secondary teachers.

It will affect the technology transfer between and among the universities and the private sector. This situation, however, presents the Nation with an opportunity to diversify the faculty, providing we can recruit and obtain outstanding students from all backgrounds.

Graduate student support is a vital underpinning of this effort. Although much of graduate student support is provided by institutions themselves and by Federal research grants, I want to emphasize the importance that the Higher Education Act plays in affirming Congressional interest in the development of a diverse future faculty.

In addition, the act authorizes programs that support graduate education in the fine arts, social sciences, humanities, and foreign language. Although the Ph.D. shortage in science and engineering has been well-documented recently, the faculty shortage in the arts, humanities and social sciences will be just as severe and harmful.

A revitalization of the Federal commitment to graduate education in these fields through an increased investment in fellowships, training grants and research assistanceships is crucial.

Thank you again for giving me this opportunity. I will be glad to answer questions.

[The prepared statement of Ms. Coolidge may be found at end of hearing.]

Mr. **Durbin**. Ms. Fraas, welcome to the panel, and we invite you now to testify.

STATEMENT OF CHARLOTTE J. FRAAS, SPECIALIST IN SOCIAL LEGISLATION, CONGRESSIONAL RESEARCH SERVICE

Ms. **Fraas**. Thank you, Mr. Durbin.

I have followed the default situation closely as part of my duties as the CRS analyst primarily responsible for the GSL program.

The costs of GSL defaults to the Federal Government of $3.5 billion are an all-time high. Why? One reason is a rise in the volume of loans in repayment, resulting from increases in principal borrowed annually: Increases in the sheer size of the program. The other reason is a rise in the rate of defaults, attributable to increases in the use of the program by high financial risk borrowers who subsequently default.

The GSL program has grown significantly in the 1980's. In fiscal year 1980, about $4.6 billion in loan principal was disbursed. Disbursements in fiscal year 1991 will be an estimated $11 billion. During the same 11-year period, obligations for defaults increased from $263 million to $3.5 billion.

With regard to these increases in default costs, an important consideration is that the more loan principal borrowed, the more loan principal enters repayment, and the more money is subject to default.

For example, in fiscal year 1980, about $3.7 billion in GSL principal was in repayment from loans that had been borrowed since the program began in fiscal year 1966. At the beginning of fiscal year 1991, $34.3 billion in GSLs was in repayment. Even with stable default rates, a rise in default costs would occur.

Collections on defaulted loans partially offset total Federal default costs. Table 2 on page 5 of my testimony shows annual collections since fiscal year 1980. Since fiscal year 1980, GSL collections have risen from $68 million to an estimated $880 million in fiscal year 1991.

The IRS offset program, which has existed since 1986, attaches Federal tax refunds due GSL defaulters and applies the amount to the debt they owe the Federal Government. Over a billion dollars has been collected through this program, which will expire January 10, 1994.

The second reason for the rise in default costs is increases in the default rate due to borrowing by high financial risk students. This is evidenced by increases in the 1980's in the proportion of GSL borrowers who attend proprietary schools.

Department of Education data show that in fiscal year 1980, 7.5 percent of Stafford loan borrowers were proprietary school students and they borrowed about 6 percent of loan volume. By 1989, proprietary school student borrowing increased to about 33 percent and their loan volume to 27 percent.

The Stafford loan program, the largest of the GSL programs, provides subsidized loans to low-income students on the basis of need. A reason proprietary school student borrowing is on the increase is that such students tend to be low income and the schools tend to be more expensive so the students qualify for significant amounts of student aid.

A 1986 student aid survey found 67 percent of proprietary school students borrowed GSLs, compared to a nonproprietary school borrower rate of about 18 percent.

Even more significant has been the recent use of smaller unsubsidized Supplemental Loans for Students, SLS, program by proprietary school students. After 1986 program amendments eliminated a limitation on the use of such loans by independent undergraduates, SLS loan volume jumped from $279 million in fiscal year 1986 to over $2 billion by fiscal year 1988, and the bulk of the increase was attributable to borrowing by proprietary school students.

The proportion of SLS borrowers attending proprietary schools was about 10 percent in fiscal year 1986 rising to over 50 percent in fiscal year 1987 and to 65 percent in fiscal year 1988.

Such patterns of borrowing are believed to have increased default rates because proprietary school students default at significantly higher rates than students attending other types of institutions.

ED analyzed a random sample of Stafford loan borrowers who entered repayment in fiscal year 1985 and found that 50.6 percent of proprietary school borrowers defaulted on their loans by the end of fiscal year 1988. This compared to about a third of community college students; default rates for students at 4-year schools are considerably lower. The average default rate was 26.0 percent for this cohort.

Why are proprietary school student default rates so high? No studies have been conducted on proprietary school borrowers, per se, to answer the question. Studies of loan defaults indicate that the major characteristics of defaulters are also the characteristics of students more commonly served by proprietary schools: Low income of the student or his or her family; enrollment in a short-term course of study; low loan balance.

Some believe that abusive practices by, or characteristics of, some schools—misleading advertising, recruitment of unqualified students, poor educational programs—contribute to a student's proclivity to default.

What we can determine from available data is that nationally, defaults are rising. Historical measures of GSL default rates based on cumulative program experience suggest that we have been experiencing a worsening default situation, particularly since fiscal year 1986.

Last week ED released its national analysis of the fiscal year 1987 through fiscal year 1989 cohort default rates used to implement provisions of the recent reconciliation laws, and these data indicated a notable rise in defaults. The fiscal year 1987 cohort of borrowers had a 17.6 percent default rate nationally. This rate for the fiscal year 1989 cohort was 20.1 percent. The cohort used is borrowers entering repayment in a given fiscal year. The rate is the number of such borrowers who default by the end of the following fiscal year divided by the total borrowers in the cohort.

In the 101st Congress two major budget reconciliation laws were enacted to achieve GSL program savings primarily through reducing defaults: The Omnibus Budget Reconciliation Acts (OBRA) of 1989 and 1990.

The most significant provisions of both laws sanctioned schools whose students default at high rates by limiting their participation in the program.

OBRA 1989, effective January 1, 1990, prohibits undergraduate students at schools with cohort default rates of 30 percent and over from borrowing SLS loans. OBRA 1990 makes schools with cohort default rates of 35 percent and over for each of the three most recent fiscal years ineligible for participation in any of the GSL programs effective July 1, 1991.

It is too early to assess the effects of these laws on default costs because there is a considerable time lag between the time a loan is disbursed to the borrower and a default claim is paid by the Federal Government.

According to program analysts, most Federal GSL default claims are paid an average of three to 5 years after a loan is made to the student. Defaults would be expected to show up earlier for SLS loans, which enter repayment status sooner than Stafford loans, or if borrowers are mostly in short-term educational programs. For example, defaults on loans to proprietary school students tend to peak about 2 years after the loans are disbursed.

The effects of the 1989 OBRA on Federal default costs, therefore, will not be apparent until fiscal year 1992 at the earliest. We can, however, make some preliminary observations on possible effects of OBRA 1989 on SLS program participation that could have important implications for defaults.

The Department of Education reports that undergraduate students at 712 high default schools were made ineligible for SLS loans between March 1990 and this July under provisions of OBRA 1989: 601 of these schools were proprietary schools.

GSL program data shows a $615 million reduction in SLS borrowing by proprietary school students between fiscal year 1989 and fiscal year 1990. Also of interest was about a $460 million decline in Stafford loan borrowing by such students.

If you assume, based on analyses of defaulted dollars, that at least 45 percent of the $1 billion reduction in GSL principal borrowed by proprietary school students would at some time default—probably for this group attending high default schools it would be a higher rate—then you would eventually realize significant cost savings from this fiscal year 1990 volume reduction alone.

Based on provisions of OBRA 1990, 178 schools have been notified that they are subject to program termination. The effects of the elimination of these additional schools from GSL program participation on loan volume will not be apparent until fiscal year 1992 at the earliest, with effects on defaults being indicated several years later.

A couple of other factors may influence GSL defaults over the next few years that could offset savings that might be realized through the reconciliation laws. For fiscal year 1991, ED has reestimated Federal default costs from $2.8 billion to $3.5 billion, based on increases in default claims coming into the Department.

Program analysts suspect that the recession may be one factor causing this increase. The recession began about July 1990 and roughly 9 months later claims began to increase beyond expected levels—the minimum period a loan could go into default and a claim filed. An important question is why loan deferments available for unemployed borrowers would not help counteract the effects of the recession.

Another factor that may be resulting in higher defaults in fiscal year 1991 might be an unintended consequence of the SLS restriction. Some propose that students who attended schools that closed as a result of losing SLS eligibility may believe that they have no obligation to repay their GSL since their educational program was incomplete: We may now be seeing the results of fiscal year 1990 school closures in increased defaults.

The challenge in considering future options to reduce defaults is balancing budget policy with program policy goals. Since 1980, Congress has enacted some 17 different laws, to one degree or another addressing default control.

At this time, options that are likely to have the greatest impact on reducing default costs would be those to further reduce loan volume or the participation of borrowers most prone to default in the GSL program.

One option that could significantly reduce defaults would be to further lower the default threshold for school eligibility for GSLs. With this alternative, you face the consequence of reducing the access of some students to Federal student aid, and potentially to postsecondary education.

Another option to achieve the same goal would be to deny loans to certain default prone student groups and increase other types of student aid for them, such as Pell grants. This would require significant increases in appropriations for the non-GSL student aid programs, however.

Another option that might be considered would be to increase receipts coming into the GSL program to offset default costs. Now both students and guaranty agencies pay certain fees to reduce program costs. Some new GSL participation fee for schools might be considered.

Default reduction proposals concentrating on preventing defaults among the current borrower population or improving collection efforts would arguably have less of an impact on future default costs than those discussed above.

This is because important default reduction efforts have already been undertaken in these areas and that current costs are largely driven by loan volume and the nature of the current borrowers.

This concludes my remarks. I will be happy to answer any further questions you may have.

[The prepared statement of Ms. Fraas may be found at end of hearing.]

The CHAIRMAN. Let me yield to Dick Durbin, who is here, and has to go to another appointment, if he has any questions.

Mr. DURBIN. I have two or three questions.

I missed the first two witnesses, but I have reviewed their testimony. I am struck by one element here. I am an easy vote for education. I do my best to put funds in education. I just don't think we do enough for it.

The increased cost of higher education for me and my wife and my family have hit us pretty hard. I note that when it comes to health care, we have imposed some serious cost containment on institutions providing health care. In return, we have said we will continue a Medicare program and Medicaid program.

What is being done in the area of Government-directed supervision or monitored cost containment in higher education? Year-in and year-out, we hear that the cost of higher education exceeds the rate of inflation. Is this absolutely necessary? Can money be saved and still provide quality education?

I will open it to the panel.

Mr. **Johnstone**. I would be happy to try that with two responses. One is that I think the celebrated cost of higher education really means, for most people, the rapidly rising tuition component of the total cost packages that frighten all of us, particularly those of us who have children in the higher priced private sector.

I am always amused when the New York Times waits eagerly for the new tuition of Bennington College as though it had some public policy significance. I have 400,000 students in the State University of New York, who until this year had not experienced a tuition increase in 8 years. This was the utter extreme. It should have gone up more along the way.

But when one asks whether there is waste or profligacy behind these costs, at least in the sector I know about, the one I am responsible for, which includes 64 institutions and about 70,000 staff, the answer is that our real costs have gone down, not up. We have lost about 10 percent of our real resources in the last decade.

There is nothing remotely profligate in this sector, and I think in most public sectors of which I am aware. There have been by and large decreases in, measured in real terms, which is principally in number of staff.

You asked whether cost of higher education ought to be, can be, should be above the rate of inflation, or below or at the rate of inflation. My honest answer to that is that probably, year-in and year-out, it will average above the rate of inflation for the sheer reason that the rate of inflation is an average.

An average is, of course, something like the middle. It is the mean. This particular average, the Consumer Price Index, is the mean of a whole bunch of price increases, specifically of products that are commonly purchased by the average urban family of four. About half of the price increases that go into the CPI are, of course, above the CPI. The other half are below the CPI.

Almost everything which is highly labor intensive is going to be in the top half. The costs of symphony orchestras, social work, health care, and education will tend to be in the half of the cost increases that are above the average, counterbalanced by the costs of goods where there are year-in and year-out opportunities for substitution of capital for labor and thus for continuous cost decreases. So the cost of higher education will tend to go up something in advance of the cost of living on average.

If institutions are experiencing a real enrichment, and that has happened in some campuses—the cost will go up even more. Such enrichment has tended to happen in that part of the private sector where families were lining up eager to purchase, at high tuitions, those enhanced higher education services, and while I do not always understand why parents want so much or are willing to pay so much, I don't infer anything either untoward or out of the ordinary or anything to be surprised about in such tuition increases in the pricey private sector.

Mr. **Nolan**. If I could add to the perspective from the office that oversees 250 institutions, including the 90 in the public sector, all those remaining in the nonpublic, it is a struggle for the independent institutions as well, as costs have continued to rise, and financial aid has not kept pace. And budgets across the Nation in 30

States last year were cut in higher education on an average of 4 percent, so Government is taking a step in the other direction to reduce its support.

Much of it is being passed on—much of the impact is being passed on to the parents, and I know for the independent sector in New York State, they have gone from $100 million or so in unfunded student aid to $500 million in unfunded student aid, in many respects robbing Peter to pay Paul to go to college.

It is a tough one to deal with for our part, from the coordinating board's level. We are asking public and the private colleges to look at the issue in a way that cuts the cost because the States are not going to continue to be able to provide huge subsidies to provide the costs for higher education.

Ms. COOLIDGE. On the last two paragraphs of page 2 of my testimony and the chart at the back address what you are speaking to, and the university of California has calculated that we spend $22 million a year to administer campus-based financial aid right now, for which we are actually reimbursed less than 10 percent in administrative cost allowances.

But we have made several suggestions we think would relieve some of that administrative burden. If we were not spending that $22 million on administrative cost allowances, presumably we would spend it in another area. And we might not have to charge the students so much. We might not be spending so much money in what we consider wasteful ways.

The suggestions we have made here would allow quality institutions to be excused from certain burdensome and costly labor-intensive Federal requirements associated with campus-based student aid. We think we would save some money that way.

If you are looking for cost containment ideas, we have one included in our written testimony.

Mr. DURBIN. Thank you.

Ms. Fraas, you have addressed an issue that comes up all the time in my district, proprietary schools. I have got to tell you in all candor, I just don't know how many beauticians and cosmetologists we need in my part of the world, but we sure have an abundance of these schools that provide guaranteed student loans to young women primarily, but young men as well, to acquire these skills. There is a great default rate.

I don't see that many beauty parlors opening, which might suggest that there are graduates who are meeting some unmet need at the moment.

In defense, these schools come back to us and say, wait a minute, we don't get the best students; we get the folks fresh off welfare; we get the folks who dropped out of high school; we are expected to try to resurrect a RIF; we have got a little tougher challenge than a community college or a university when it comes to education and, therefore, don't be surprised at the default rate.

I think that is part of your testimony here, the nature of the person who is defaulting, the individual going into the system.

The question I have, coming at it from the opposite perspective, is, What kind of measure have you come across or seen that the product coming out of the proprietary school is actually enhanced, that we are actually spending money and getting results for it, albeit small results, but, some results?

Are we getting a student from this process, even with the risky student population and higher default rate, who is going to be more productive in society? Are there any surveys on that?

Ms. **Fraas**. No, there are no surveys that I know of.

I feel certain that the proprietary school trade associations, such as the National Association of Trade and Technical Schools, could give you some more complete information in that area. There is very little we can say generally about the outcome of postsecondary education, let alone proprietary education. We can measure degrees for degree-granting institutions, but the area of trade and technological education is a very, very difficult one to get a handle on outcomes.

As you may know, there were some regulations that were issued several years ago that were quite controversial to control defaults. One aspect of those regulations was to require vocational technical schools—that would include community colleges in addition to proprietary schools—to have certain outcome measures to participate in student aid programs.

Those regulations were later repealed by the Student Right-to-Know and Campus Security Act, because the community colleges said the approach of the regulations was unfair to them because the type of students they had and educational programs such students pursued did not always result in a degree and that many community colleges would have, as a result, low graduation rates.

There is a perpetual problem, I think, in trying to deal with the diversity of postsecondary education and what is supposed to come out of it and judging whether the Federal Government is getting what it is paying for.

Mr. **Durbin**. I would like to hear your comments on a situation in West Virginia where, as I understand it, a student basically came back and said, "I didn't get an education on this, and I shouldn't have to pay." As I understand it, a court agreed with them.

Ms. **Fraas**. I believe the essence of that case was whether the lender was equally liable as the school—whether the connection could be made that the lender had a relationship with the institution.

And basically, the outcome was that the judge said, yes, indeed, you could make that connection.

Mr. **Durbin**. Thank you very much, Mr. Chairman.

The **Chairman**. Mr. Houghton.

Mr. **Houghton**. Thank you, Mr. Chairman.

I may be oversimplifying this, but it seems to me you have got two problems. One: Proprietary schools. You have got control of your receivables. Either you monitor it, garnish people's wages, or monitor the schools. But, it is clear that it has gotten out of control. We can get this problem back in control. To me, it is a black and white case.

And two: How much we spend for primary and secondary education, graduate education, and vocational education. I remember—and I am old enough to remember—when the community colleges in New York State were started. I am not sure whether they started about the same time as California or not. The whole concept of the community college, was to give a person a chance to get a reasonably priced education and still live at home. They could then generate enough income to have the basic economical "nut" to build on or borrow against.

But now you are saying that community colleges aren't adequate that we have to do something more here. And I guess the question which we all wrestle with is: Should the Federal Government be far more involved in the education? In other words, should the Federal Government have the same basic stake in education as it does in health?

And if the Federal Government has a big stake in education and in health, should it then assure a job? At what point do we stop? We have so many conflicting demands placed upon us. What about the 7 million kids who are really disadvantaged. You know they are going to get into trouble because of where they live, because of demographics and because of their families. Maybe we should put all our effort here.

So, there is a broad spectrum of problems that need money. Maybe you could help sharpen our focus a little bit.

Mr. Nolan. Why don't I pick up where we were talking just before the Committee convened.

One of the efforts that has received widespread support, keeping the focus on education for those youngsters that are at risk that you were just describing, is to encourage at the Federal level, partnerships between the schools and the colleges and through early identification of the individuals who need the help, need to know that their aspirations can be met with higher education at the end, if they stay with it as they work their way through the school system.

These kinds of efforts are underway in New York, as Chancellor Johnstone can concur here. The Liberty partnership effort is one that does that, and really has been very successful within the State.

But I know that that exists right across the country, building on the "I have a dream" foundation approach. That's only one aspect of it.

I still come back to the basic issue of the quality of the education in which the Federal Government is investing something on the order of $17 billion. Until we look at the results of the education that is provided, then I submit we are not going to know whether we are investing properly, whether we should be supporting this or supporting that. And I believe there are ways we can do that, as I have tried to outline in my testimony.

Mr. Houghton. So what you suggest is we do not spend any more—I don't mean to put words in your mouth—we don't spend money on a variety of different areas until we know the essence and the quality of the specific program?

Mr. Nolan. I am not talking about size of the investment at this juncture. My colleagues are well-positioned to do that.

What I am talking about is that in many cases we know what works, we can build on successful experiences. What we know isn't working is the assessment of quality right now, just witnessed from every different vantage point that we can get. And I think until we make that effort to assess the quality, we are not going to know where to invest the best.

Mr. HOUGHTON. So do you agree with me or not?

Mr. JOHNSTONE. I think you should say no.

Mr. NOLAN. I am getting mixed signals. I will go back—simply put, we need to invest in those youngsters at risk. I think we have got some specific proposals for doing that, but in the greater context of how we protect Federal investment in higher education that we are talking about this morning, I think the very key element is how we assess the educational outcomes of the variety of producers of education at this point.

Mr. HOUGHTON. Let me try to put that in other words, that if a school is providing a quality education—by whatever standard you choose to use—tests or samples that you make, it should be supported in a different way by the Federal Government through enhanced programs or whatever other supports you have?

Mr. NOLAN. I favor an enhancement of the Pell grant program. I favor targeting it to the middle income. I don't favor the targets that have been outlined by the Administration. But those are different questions, and those are questions that really need to be developed.

My point is if we keep tinkering around the edges and avoid the central issue of whether or not the educational experience is the one we want to invest in, then we won't know the answer to that very basic question.

Mr. HOUGHTON. Any other comments? Could I just continue a minute, Mr. Chairman? Any other comments?

Mr. JOHNSTONE. I think I might give a little different answer.

My sense is that it is easy in this world and perhaps easy in this city, in the case of higher education, to overestimate the relative importance of what the Federal Government does as opposed to the State government. For me, what is done out of Albany is overwhelmingly more important than what happens in Washington.

But the Federal role to me is very clear, somewhat narrow, terribly important, and has to do overwhelmingly with access and with providing minimal financial assistance to students who I think would be otherwise unable to attend even with the subsidized higher education that we provide in SUNY, and that my colleagues elsewhere also provide.

I don't think the Title IV programs are broken at all. They have not kept up with the increase in costs, and I think, therefore, that they need to be enhanced. I think it is time for that. But those who feel there is some fundamental misalinement, that we are on the wrong course, that it just doesn't work, I believe are incorrect.

We have chosen to continue a substantial reliance on parents more than any other country. We have a substantial reliance on students themselves, both through loans and through work, more than any other country. I think arguably too much, but I think we are up on an edge which is still doable.

Beyond that, we rely on the Government, public sector, State and Federal, and the current rough balance between a basic need-based grant program that we call Pell, a variety of loan programs and some work study, is an excellent general framework.

It got eroded in its role value over time, and that erosion was exacerbated by what is a difficult problem, the problem of the proprietary sector, in that most of the increase in the Pell grant total amount went into the proprietary sector.

It is not necessarily wrong, but I think that is a difficult thing the Government has to deal with.

Mr. **HOUGHTON**. How you would conclude that?

Mr. **JOHNSTONE**. How I would conclude is that you have basically a workable and effective system in Title IV, the Pell grant portion of which has been allowed to erode over the years and needs recovery, and I think also needs the certainty, I would like to say, of some day being an entitlement.

Mr. **HOUGHTON**. Dr. Nolan.

Mr. **NOLAN**. I agree with that, and my testimony points out that Title IV comprises about 20 percent of all public support for postsecondary education in the Nation, with the other 80 percent coming from the States.

Mr. **HOUGHTON**. Ms. Coolidge and Ms. Fraas.

Ms. **COOLIDGE**. I think the point you may be driving at is something that we in the traditional sector of postsecondary education worry about. If the Federal Government targetted every kind of Federal aid only on the highest risk students, that many of these students go to proprietary schools, some to community college, but many to proprietary schools, and that students in the traditional sector would see very little of Federal support.

So we are—I am very sympathetic to the testimony given by Dr. Nolan, that before the Federal Government does more, they need to really figure out which schools students should attend for quality education. The Federal Government shouldn't give money to students who attend schools that do not offer genuine educational experiences.

Ms. **FRAAS**. I think that the biggest issue you face concerning Title IV stability has been the effect of the proprietary school student use of the aid programs over the last few years—especially the effects of such use on the loan programs, but also on other types of student aid. That is as much a general program integrity issue as it is an issue specific to that particular sector.

I think the bottom line is that the programs were not overseen the way they needed to be; and some people got into the program who should not have been participants. There appears to be a lot of blame to go around for this that even the Administration will accept.

Schools have gotten into the programs that I think even the proprietary school lobby group rather freely admits should not be. How you can really judge educational quality is what the reauthorizing Committees are going to be dealing with over the course of this Congress when they are considering the reauthorization of the student aid programs.

Mr. **HOUGHTON**. Thank you, Mr. Chairman.

The **CHAIRMAN**. Thank you, Mr. Houghton.

Let me ask Dr. Johnstone, if I could, we focused on student aid, but if you were to combine, look at the research money that has been provided by the Federal Government, if you look at your overall budget, what percentage of that would be Federal?

Mr. JOHNSTONE. Well, we would give an answer that would be impacted partly by the fact that I have the community colleges, fourth-year colleges, as well as research universities, different base.

I suppose it would be—I have really got to guess here—in the nature of probably 20 to 30 percent, but that is a very rough guess.

The CHAIRMAN. Is that true for the University of California?

Ms. COOLIDGE. I think it is similar. We do know that 55 percent of all the student support we administer, including Federal research and science grants and so on, 55 percent of student support is Federal.

The CHAIRMAN. Well, as always, it is a question of where you draw your resources from, and the reality is that resources flow from both the State level as well as the Federal level. The President, interestingly enough, has made the decision that education is important from a national perspective.

The whole issue of Education 2000 and the goals that are being established are goals that are being established at the national level for the country nationwide, even though I might quarrel with the fact that he doesn't provide any resources for it, but obviously he is prepared to discuss national goals.

So there clearly are some national concerns about what is happening with education and the level of investment that needs to be made with respect to that area.

I don't think we can just stand aside and tell you you ought to do a better job and not at the same time be part of the partnership, and probably partnership is the best way to say it. Clearly we do have a responsibility to be a partner in this process.

And so the issue then becomes, if we look at the period between now and the year 2000, from a higher education point of view, where should we, in developing budgets between now and that point, where should we target our resources?

I guess what I would ask each of you is, If you had that opportunity to design, where would you target our Federal resources in these areas?

Ms. COOLIDGE. The model that I describe today at the University of California involves the heavy subsidy at the bottom in the form of Pell grants for the neediest students.

However, as most of my testimony was dedicated to advocating a broader band than is currently the case under Federal methodology, and with a sliding scale, with the combination of grants and loans for somewhat less needy students, and at the top of the Federal scale we would see people receiving loans with minimal subsidy. So that sort of range seems to us to make a lot of sense.

Obviously, the work study program is also a subsidy. If the range were extended, the University of California students would benefit. In California a family earning $20,000 or $21,000 would be ineligible under the Administration's proposal for a Pell grant.

The secretary in our office earns $21,000, two children, single parent, lives in a marginal Oakland neighborhood, does not own a car, and her son will not be eligible for a Pell grant if we adopted the Administration's proposal. It costs $11,000 a year for total costs, fees and living, to go to the University of California.

It is not reasonable to expect that family to send a youngster to the University of California with no subsidy, no grant support, even with some subsidized loans. That is too extreme.

So in terms of targeting, we do want to see this band enlarged and we want to see the heaviest subsidy at the low end. But we want to call to your attention the fact that poverty takes on a very different face in different places.

The CHAIRMAN. So between now and the year 2000, if you were to say, what is the most important thing the Federal Government could do in terms of higher education, and let's put the research element to the side for a moment, because I am sure you would say "please" on that one too, but let's just put that aside.

If you were to say, what is the fundamental mission that the Federal Government has, it would be to adequately fund Title IV assistance programs that are in place.

Ms. COOLIDGE. That is right.

The CHAIRMAN. And I would assume also, properly enforce those areas so that we don't have these runaway default problems that confront us. Is that a fair statement?

Ms. COOLIDGE. That is it.

The CHAIRMAN. Does anybody disagree with that?

Mr. JOHNSTONE. Well said, sir, very much. It is consistent with my sense that this is not a fundamentally broken system.

You used the word partnership. One of the things I do is study financial aid systems in other countries. I recently came back from a conference in London where the Danes and the Australians and the Japanese and others were there, and one thing that is just categorically true of the American system is that of the four conceivable parties to the cost, taxpayers, parents, students, and donors, there is no question but that the American system, for good or ill, maximizes all of the nongovernmental sources. In that respect, we are the envy of the whole world, which is otherwise enormously dependent on taxpayer sources.

We maximize student contributions, and I think we maximize philanthropic contributions. That should be, I think, some comfort to you.

The CHAIRMAN. In an issue area where there is very little comfort.

Mr. JOHNSTONE. Maybe it should be a warning to you if you want to relieve the taxpayer obligation.

The CHAIRMAN. Let me follow up on that. And I think there will continue to be, particularly in California now, it is, you know, with the $14 billion shortfall and the need to increase additional taxes, I think we are going to run into more and more resistance among more and more taxpayers. New York is probably following the same course. More and more resistance among more and more taxpayers who are going to say what is going on, and where in fact are these funds going.

And what I see happening is that—and I have resisted it to some extent over the last few years, but I also think that if we are ever going to restore our credibility to some extent, you are going to say to somebody, we want you to contribute higher revenues, you are going to have to commit to those individuals that those revenues are going to be used for very specific purposes because I don't think they trust us in terms of throwing it into a big pot. And that is a legitimate concern.

One of the arguments around here is, for example, that the gas tax ought to be used to essentially fund infrastructure improvements in the country, expand that in highways, mass transit in other areas. Do we need the same kind of dedicated fund with respect to education?

I guess the Majority Leader suggested yesterday increasing corporate tax to provide kind of an incentive for productive students or for students that perform well. I probably would go beyond that and say, if you take something like the corporate tax, we have CEOs here talking about the importance of Head Start programs, the importance of trying to develop that base education.

I guess what I would do is raise the question, maybe we ought to take the whole corporate tax and commit it to education resources or to children in this country, because admittedly children are an important investment for business in this country. Does it make some sense?

Mr. JOHNSTONE. I recently had a conversation about this with some Members of Congress and the American Council on Education. On one hand it is tempting, particularly when those asking the question seem sympathetic to education or higher education, and we might well be the beneficiary of a dedicated source.

As an economist, I think I have got to say it is bad public policy. I would be hard-pressed to say that higher education has any greater claim on the corporate tax dollar than does public health. So I would prefer that we cast our lot and win your support or lose it on the basis of available resources, and the importance of our claim on the public dollars.

Mr. NOLAN. Well said.

Mr. JOHNSTONE. That is a very personal view, I will say. Some may disagree with me.

The CHAIRMAN. I should have known better than to ask a bunch of academics——

Mr. NOLAN. Where to get the money?

Mr. JOHNSTONE. However, sir, if you come up with it, we will find a way to spend it.

The CHAIRMAN. In the meantime, we will continue to battle over resources, obviously, and maybe that is the nature of the system. I guess what I am looking at, this country being in a position where it can really compete with the world, and if we are going to do that, we have to change business as usual in some of these areas.

Mr. HOUGHTON. If I can interrupt, Mr. Chairman, there was a study done by the dean of the faculty of Arts and Sciences at Harvard that indicated that two-thirds of the best universities in the world still reside in this country.

The CHAIRMAN. Well, as a matter of fact, all three of my kids have gone to the University of California so I have a prejudiced view toward public education in this country, and particularly the public university systems. I think they are extremely important.

In your testimony, you have covered, Ms. Coolidge, the problem with the Administration's proposal on Pell grants, and I share that concern. While I appreciate their need for targeting, if it were a question of targeting and then saying to the students in families earning $10,000 to $30,000, we have got another area of assistance here that we ought to focus on, the middle-income student, and frankly I think it is baloney to talk to $10,000 to $30,000 family income as being middle income in this country. That is struggling, heavy struggling at that rate in terms of what you have to pay and your ability to raise children.

My concern is that what they have essentially done is targeted it and basically cut back on the others, so what you are essentially doing then is stripping away any kind of support system for those in that category. And I think those are the ones we have to support, mainly because I don't think you could sustain a Pell grant program that is just targeted at kids under $10,000, politically. It is a little bit like the school lunch program. The fact is, you really need to broad base it.

Ms. COOLIDGE. When you were out of the room, I did mention, after I heard your questions of Ted Saunders yesterday, I called our office and we have calculated that 42 percent of the dependent undergraduates at the University of California would not be eligible for the Pell grants they are getting today, and that we would exclude from eligibility that amounts to almost 10,000 students; 9,300 I think is the figure.

The CHAIRMAN. Every time you raise that tuition, it doesn't help me, either. So I understand why you are doing it.

Thank you all very much. I appreciate your testimony, and I really do appreciate your guidance on this issue. Hopefully we can try to provide some better guidance with respect to what we need to do in the remainder of this decade.

The next witnesses are Hon. William Brock, who is Chairman of the Secretary's Commission on Achieving Necessary Skills, U.S. Department of Labor; and Hon. Roberts T. Jones, who is Assistant Secretary for Employment and Training, U.S. Department of Labor.

Senator Brock, nice to see you here. You may read or summarize from your testimony, as you wish.

STATEMENT OF HON. WILLIAM E. BROCK, CHAIRMAN, SECRETARY'S COMMISSION ON ACHIEVING NECESSARY SKILLS, DEPARTMENT OF LABOR

Mr. BROCK. Thank you, Mr. Chairman.

I really appreciate your interest in the subject. Listening to the previous conversation, we are in much agreement on so many areas, but if we don't start paying attention to the children of this country, the old folks that are getting the increases are going to find nobody paying for them.

This is the dumbest single skewing of priorities we have done in 200 years. And it is not wrong to help the old folks. It is just crazy to ignore our kids. That is what we are doing in this country.

I want to read to you one short paragraph of our SCANS report, because it spells it out pretty clearly:

> More than a half of our young people leave school without the knowledge or foundation required to find and hold a good job. Unless all of us work to turn this situation around, these young people, and those who employ them, will pay a very high price. Low skills lead to low wages and low profits. Many of these youth will never

be able to earn a decent living, and in the long run this will damage severely the quality of life everyone hopes to enjoy in this country.

We have got some choices to make in this country, and the frightening thing is we are making them but not doing it consciously.

We published last June a report, and in this we came to the conclusion that the United States was choosing to compete with the world on the basis of low wages rather than high skills and high wages. That is a terribly dangerous choice.

When I was at the Department of Labor and we did our work for the 2000 study, we laid out three scenarios. I hate the word, but we have to do like the Congress in this town, so we lay out these choices: A low-growth path, a base path, and then a high-growth path. And we came to the conclusion in both the America's Choice report and the SCANS Commission that we have chosen since 1985 the low-growth path.

As a matter of fact, you can't even argue for the high-growth path, because we have been so inadequate in our performance in the last 6 years that we couldn't achieve the high-growth path under the most optimistic of assumptions. That is just out of the window now. That is gone. The best we can do is to achieve the base scenario of averaging 2.9 percent over the 15-year period.

The point of this is that unless we change what we are doing, both in the school and in work, and I want to emphasize "and in work," we are going to continue to walk down the low-wage, low-skill, low-growth path. These kids can rightly say to us, we don't understand why we are being taught science and math and English and geography because we don't see how it relates to the world of work. But even if we did, the kind of jobs that you are offering us don't require us to think, and most businesses, don't require us to have very high skills.

Businesses are spending a lot of energy complaining about education in this country, but business are doing precious little to draw upon the real talents that workers could bring. So the kids are responding to a message, and the message is real clear. It doesn't matter whether you stay in school or not. It doesn't matter whether you have got a high school diploma or not. It doesn't matter if you work hard, if you exercise some self-discipline, because nobody is going to evaluate those qualities. When you come to work they are going to say, are you reliable, will you show up on time, and we will try to train you to do low skill jobs, because we are still trying to compete with the rest of the world on the basis of holding our wages down rather than improving the skills of our work force.

I think that is dumb. I think it is dangerous and dumb, both.

So what we did with our commission was to take a look at what we would like to be as a country. We looked at our best firms and said, "What if we were all trying to provide those kinds of jobs; what skills would they be required to have?" And by high performance, we mean businesses that are relentlessly committed to quality, to customer satisfaction, to just plain excellence, to building the quality in on the front end rather than having a lot of quality inspectors at the end of the line.

And when we looked at that kind of a workplace, which is organized horizontally, not much management, you save a lot of money by getting rid of all those quality inspectors and getting it right the first time.

If you draw on those skills of workers, what are the competencies required? We came down to two basic categories. First, there are certain foundation skills that can be taught. I guess the first thing we asked, Are these skills that we can define? Second, can we teach them? And third, can we measure them? And if we came to the conclusion, yes, in all three, then we would propose them.

The foundation of any competencies were fairly, I think, commonsensical, but they need repeating because we still don't teach them. Of course, they include the three Rs, but they also include the ability to listen, which we don't teach very well, if at all, and the ability to speak, because you have to communicate with fellow workers if you are going to work as part of a team. They include thinking skills, creativity, decisionmaking, problem solving, and they include very important personal qualities such as individual responsibility and integrity.

If you have got those foundation skills, then you can begin to work on what we call the five basic competencies that were identified by workers on the line, as well as by managers that we talked to over the last year. These are the ability to allocate resources, to work with others, to use information, to work with systems, and to use technology.

I don't want to go into any more detail than you want to, but to emphasize the point, what we are saying is that it really doesn't matter whether you want to be a professor or a plumber or a psychiatrist or an auto mechanic or a bank teller. You need these competencies in whatever you are going to do. And there is no reason they can't be taught as a part of the normal curriculum of any school in the United States, as a part of the curriculum. You can teach English and human relations at the same time, or the ability to listen.

I guess to sum up, then, we need to restate a few fundamentals in this country, and one of the fundamentals we seem to have forgotten is that our front-line workers are our most important asset. We can't compete with anybody else in the world if we have a low-skill work force. It is very straightforward.

And it is crazy to think that we can put all our emphasis—we were talking in the previous panel about higher education. You can educate the top 30 percent of this country until hell freezes over and they can't carry 70 percent on their back. They are going to have a declining standard of living unless we do something about the 70 percent, and that is where we can do some real fundamental things that work.

So that the first step is to tell educators something we haven't told them before, and that is how to prepare kids for the world of work. Ask any teacher how to prepare a child for college, and they give you an answer that is right. Ask any teacher how to prepare a child for the world of work, and you either don't get a good answer or you don't get any answer at all. Because we haven't told them. It is not their fault; it is ours.

We keep coming down on the teachers in this country, but we are not sending the teachers or the kids a clear message. If we can convince teachers that they can teach these competencies, they will.

Our kids need to understand one other fact and that is that there is dignity and opportunity in noncollege careers. There is nothing wrong with choosing a different career path. If we can put the kind of emphasis behind the 70 percent that are not going to finish college, the 50 percent that are never going to go, this country can hum.

There is no limit to our ability to compete. But today we are doing a terrible job, an abysmal job. We have the worst school to work transition of any nation that we have studied in the industrial world. And that is a very dangerous situation to allow to go unattended. Thank you.

[The prepared statement of Mr. Brock may be found at end of hearing.]

The CHAIRMAN. Thank you very much. I appreciate your testimony. Mr. Jones.

STATEMENT OF HON. ROBERTS T. JONES, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, DEPARTMENT OF LABOR

Mr. JONES. Thank you, Mr. Chairman. And I, too, appreciate the opportunity to be here with you and also with Secretary Brock.

Let me just summarize. We will submit the statement for the record, adding a few things including perspective. The reason the Department and former Secretary Dole and Secretary Martin have been so concerned about and engaged in this issue perhaps goes one step further than Mr. Brock's explanation of the competitiveness and productivity issue. It goes to a very personal and human concern, that as we began to learn about these work modalities and the way American businesses were competing and the growth of changes that were occurring at the workplace, we also began to take a look at the hiring and selection systems that were going on inside these companies.

And one began to find out that the original thesis—that no matter what your education level was, if you could get a job and were willing to work, you could survive in this system—simply wasn't true. Employers are now selecting people based on a series of skill screens that haven't been articulated and haven't been built into the school system or into the American psyche, the family, television, or any place. That begins to get people to begin to appreciate that someone changed the rules.

The Commission was put in place not as a typical Washington Commission, to go out and write up another 35 recommendations to be put on a shelf in the hope that somebody would read them some day, but to simply examine with some level of assurance what was taking place in the high performing work areas of the country, what the implications were in terms of hiring patterns and screens, and what that meant to people and to schools and to employers.

The presumption from day one was that the Commission's report was not a Washington report. Secretary Brock and Secretary Martin spoke specifically and made clear recommendations that if this report was to have value, it was to provide a nexus in a local community for business people and educators and parents to determine whether that school system in fact was bringing young people out at a level that allowed them to succeed in the workplace. You can't do that at Washington roundtables. This dialog occurs in the communities.

From the beginning, the purpose of this report was not only to complete and publish it, but to start a round of discussions throughout the country, in local communities, with business organizations, with unions, with educational systems, and a variety of other organizations, to facilitate an examination of the skills demanded in those businesses and those taught by schools, and to determine whether the two are out of sync.

The report has been widely supported and has received some odd criticism. One of the criticisms that seems to come up is whether or not the school system should in fact have culpability for the kinds of competencies that Mr. Brock has outlined.

I think it is imperative to understand, as the Secretary has just indicated, that we are one of the few countries of the world that doesn't have a formalized school-to-work transition system. We graduate people at 18, not 16, and we hope that after 18 something good happens. A few end up in the college-bound system you were discussing earlier, and the majority arrive at a workplace ultimately through all kinds of helter-skelter paths, but through no one structured system.

The answer to the question is relatively self-evident. In this country, we have only one place to transmit work-related competencies—in the secondary school system. One way or the other, we expect that system to do the job and we expect young people coming out of it—whatever their citizenship, preparedness, or their opportunities for other training and education—at a minimum to be prepared to step into the workplace and to succeed. So either we need to deal with traditional school systems, or we have to be willing to begin to examine its implications for a school-to-work system in this country.

I would like to also point out that we have been carefully examining these issues around the world. It is important to know that the SCANS competencies, as argumentative as some people might find them, are in fact precisely the competencies being dealt with by every other industrialized country. The changes that are occurring in the workplace are not just occurring in American workplaces. They are occurring in Japan, Germany, and every other industrialized country.

Technology, work modalities, and methodologies, and the ability to compete, affect all of those countries. They are all dealing with the same issues. The European communities put out a report that lists skills that have to be inculcated into the basic education system, and they include all the SCANS competencies.

The only difference is that the countries have an option. They can put these skills in the basic school system or into the "dual system," which is a school-to-work system. We now only have the one option—the traditional school system.

The point is, that definitions of the competencies themselves are coming from the workplace. They are in fact being effectuated as hiring screens, whether we like it or not. They are facts. They are real. These skills impact the lives of every young person in that school system and their ability to step up and move into the workplace. And we have to deal with them.

Furthermore, in this country we have to deal with them locally. And that is why for the next few months we will be moving throughout this country to spread the SCANS message. The Secretary has already traveled throughout the country, with the Commissioners, holding meetings to start the process. We also have a formal system to go into every local community we can and bring people together to examine the issues and make their own determinations in their own school systems.

Whatever the outcome, Secretary Alexander and Secretary Martin have both pointed to the fact that as we come to grips with the standards and the tests for national norms for high school graduation in this country, it must be based in part on the relevant competencies that allow people to successfully enter the workplace, in addition to the other academic standards that we set.

We thank you for your interest and support, and we hope, since we have transmitted this report to every Member of Congress, and all of your State people, that we can encourage you to join with us in getting people to address these of issues. Thank you.

[The prepared statement of Mr. Jones may be found at end of hearing.]

The **Chairman**. Thank you very much. Let me ask, when you interviewed the firms you talked to, for example, I am aware of the fact that Motorola, after a lot of interviews rejected a huge percentage of those applicants, is that—what happened with Motorola—something you are finding with other firms in terms of rejections that are taking place because of skill inadequacy; is that something you are seeing around the country?

Mr. **Brock**. I wish I had it immediately at hand, but one of the firms that we looked at had published an appeal for workers, and they had had something like 15,000 who had applied, and had they finally got through their screens, something between 500 and 550 were qualified for their entry-level positions. These were pretty basic entry-level positions. So that is between 3 and 4 percent.

You hear that in every section of the country. You hear it time and time and time again. It is not an isolated case. It is occurring a lot these days.

Mr. **Jones**. If I might add, there was a precise example that speaks to your question that stunned us. When we looked at Motorola again, not just at their work modality but at their hiring screens, we found that a blue collar worker in their manufacturing line goes through a 5-day screening process to get hired.

When we took it apart, two of the days are basic things you and I would understand. The other 3 days were designed specifically to determine whether those people could work within the structure of a team, had the ability to make analytical decisions on their own, took responsibility, and were willing to work the hours, if necessary, on their own decision, not on some manager's. There was a whole series of things Motorola did to sort through these other competencies. And I don't think anyone knows that. When we asked Motorola, "Have you taken that to the school system?" The answer was "No."

Mr. **Brock**. Nobody has told the schools.

The **Chairman**. If you take an industry like Motorola, I assume that work-lines and the technology of work-lines is becoming a lot more sophisticated just by the nature of technology and how it develops. Is it your feeling that if you were to take it back 20 years and have General Electric doing the same thing, that they would have run into the same problem at that time?

I guess what I am trying to say is, in part, is it the problem that the industries that are providing these jobs have become more particular in terms of the workplace, or are we really seeing a deteriorating work force in terms of its abilities to handle those things?

Mr. **Brock**. You are seeing both. There is a qualitative change in the workplace that is ongoing. It is occurring in the more advanced companies, Motorola, firms like that that have had to face very tough international competition and have had to change the way they work or they were going to fail. And they were very frank to tell you they were not going to make it.

Part of the problem is that we are not just talking about a different technological world, although technology has changed. We are talking about a global, competitive world. A business in Taiwan or Brazil can buy precisely the same equipment or technology as a business in the United States.

The way you produce, the way you enhance your quality—there is an automobile plant, I shouldn't use the name of the company, but there is one that has a marvelous reputation in the world, but they have more workers at the end of the line correcting defects that they have on the line, because they will not put out a bad quality product.

But that says something about the way they run the front of the line, doesn't it? And what is happening is that businesses are finding out, they can't survive in a world like that. They have to change the way they organize the workplace and, yes, technology is driving it, but so is global competition. The combination of the two is putting a very different kind of pressure on business.

And one of the most interesting things that occur is that one of our business people who is wonderful and eloquent on this subject says, you know, if I had thought about these questions 10 years ago, I wouldn't have come up with these answers.

We have changed radically in just these last 10 years. I would not have known what I know now.

The **Chairman**. What is it in your studies that educators are failing to do in terms of——

Mr. **Brock**. They are not relating what they are teaching to what happens in the world. They are not making that connection. They haven't been told that you can make the connection, and here is how. That is what we are trying to do with this particular report.

It is fine to teach math. It is fine to teach how to add a column of numbers. It is utterly irrational to think that makes any difference to anybody if you can't go out and read a bus schedule. That is what is happening. We are not making the connection. And our kids, therefore, in large measure, are bored silly.

And frankly, because parents aren't getting the message that it makes a difference, they are not involved, and parental involvement is still the most important single element in a successful child.

So all of these things have come to bear on a system that probably is busting a gut to do right, but they haven't been told what right is. All we tell them is to do better. We haven't told them what that means.

The **Chairman**. Do other industrialized countries make that connection?

Mr. **Brock**. Yes. There really is a difference. Mr. Jones mentioned it. They have two different systems side by side that allow them to say, if they are academically inclined, you are going to start on an academic track, do what the United States does, and that is fine.

But they worry about the rest of their kids. We don't. We just say, if you are not going to follow an academic track, you are probably a little less than everyone else and we are not going to pay any attention to you.

Every other industrialized country, in all cases, by the age of 16, they have offered them some choices. In some cases it is a work study program, in other cases it is an apprenticeship, in other cases it is a technical institute kind of education or a community college education, but they offer them choices by the age of 16. We don't. We simply don't make any such connection.

What they are also doing is saying, we will show you what those choices imply. We will give you some sense of what happens to you as an individual if you make this or that choice.

We, in effect, say, everybody ought to go to college, and if you don't, we really don't seem to think you are very important, we are not going to pay any attention to you. We have no alternative programs.

The **Chairman**. Let me ask you, both of you are at the Labor Department. We have a lot of programs that are supposed to pick up the gaps. We have got things that are supposed to deal with that. Are those programs not serving that function?

Mr. **Jones**. I disagree just a little bit, Mr. Chairman. We have, from a Federal Government standpoint, JPTA, JOBS, and a number of other major programs that are all designed to help the disadvantaged at the bottom make the connection up to the first rung of the job ladder. Then we have this enormous system of higher education that we are very proud of, and we should be. What we don't have is anything in the middle.

There is a phrase here I would like to just put on your table that quantifies Mr. Brock's explanation. "Contextual learning" is what this is about. It is about bringing math, reading, and other competencies that are important in the workplace into a real-world learning context. It is not simply teaching a mathematical table, it is teaching mathematics in a workplace context.

Now, the Europeans, again, have options about where to provide this contextual learning, and that is all they are arguing about. They are not arguing about what skills are necessary. They are arguing about whether these skills should be taught in the basic school curriculum—which tends to be much narrower and basic than ours because it is the base only—or whether they should be taught in the dual system that follows. Students can go into a work-school combination program for about 3 years in most countries, where they can, in a context, learn better math skills, better reading skills, and team-work skills.

In those countries, you don't get an F for working with the kid next to you—you get support and build skills around working with others. This concept of contextual learning, to answer your question, is not in our basic education system, and therefore, since we don't have anything else, it doesn't exist. There is a void.

The **Chairman.** You look at what drives these things and obviously, there was a time in this country where you had the industrial revolution, even within the last 25 years, when you have an economy that is pushing and there are lots of jobs out there, people don't quite have to fight these issues so much because the jobs are there and you are getting people into it, and frankly, blue collar jobs were not bad jobs.

That is what made the middle class in this country, is the ability to work these jobs, draw a decent salary. In the last few years, blue collar jobs have taken a big hit. So we either go to the service side of the equation or try to drive everyone into the while collar jobs.

So the nature of the marketplace, to some extent, now requires if we are going to be competitive, you almost have to do the kinds of things you are talking about, because you are talking about heavy, heavy competition out there with countries that are doing this kind of focus and contextual training, and we have not—we haven't ever had to compete in that kind of situation. I think the things you are saying are absolutely true in terms of the focus that we need.

Mr. **Brock.** One of the most interesting statements that struck me like a two-by-four, one of our business people said, I can't afford low-wage workers. Isn't that wonderful? It really says something. The more you say it, the more you think about it, the more it says.

He is absolutely right, of course, but we are not thinking like that in this country yet. We are still trying to fight the wage battle as if the worker were an expendable item instead of the front line of our defense. And that is upside down.

I want to stress something that I tried to say in my opening, and that is, when we are talking about the SCANS work here, I really want to stress that we do think we need a modern workplace in the school. In other words, I want the schools to be as good as business.

But I am also saying that unless most of our business begin to adopt the modern workplace, they are not going to make it. And this country is going to be desperately in trouble. So the workplace has to change just as much as the school does. It does no good for business to complain about education unless business is willing to change. It takes both.

The **Chairman.** Let me ask you from a policy point of view, and you have been here, and what we can and can't do, but if you were looking at, you know, what in fact, you know, the Congress and the Administration can do in this area to better focus our resources on what you are talking about, what would that be?

What would be the most important thing we could do at this level with the policy decisions that we have to make at this level that could in fact make the changes you are talking about?

Mr. **Brock.** In the America's Choice report in the Commission on Skills, we suggested that we target everything to the age of 16 in this country, because that is when kids can legally leave school, and frankly a lot of them do. And if we prepare them to be globally employable by that age, then we have given them their best opportunity.

We have said, if they meet what we called a certificate of initial mastery, then let's offer them a deal, a real deal. Let's offer them 4 years of additional education and training. Whether they want to go to college or technical school or an apprentice program, that is their choice. But give them 4 more years.

Their part of the deal is to pay a 1-percent surcharge on their income tax for the rest of their lives. Their incomes are going to go up like a rocket. It would also be a good deal for us, we would start to make a profit on it in a few years.

But we need to change the way this country thinks about education and the relationship of this skill base to our economic well-being. I guess what I am saying is that I think something like that would not only be economically logical, I think it would send the kind of signal the country has to send to every parent and every child.

In terms of resources, I think we ought to start taxing firms that don't train. I think we ought to have a GI bill, if you will, for kids at 16 that reach a globally set standard. If they can't make it by age 16, then they make it by 17 or 18, I don't care, as long as they get there.

We give them 4 more years of education and then we charge them on a long-term basis, not on a Pell grant. We have got too much of a hodgepodge that confuses people. I want to say one thing—you were asking about applying all of corporate revenues to kids. I think that is such an interesting concept. I don't agree as an economist that that is the way to do it.

The **Chairman**. Nobody does.

Mr. **Brock**. But I do think that maybe in this country we ought to start thinking about a consumption tax and how that tax could be used to do some of these things that we are unable to do today.

I don't think we can continue to burden the income side, the production side of workers or managers or investors and compete in the world. I think we have got to start looking at consumption as something we ought to provide a little disincentive to in order to be more productive.

The **Chairman**. Well, thank you both very much. Your testimony has been very much helpful, and as always, you bring an expertise from you backgrounds that is very valuable to us.

It is obviously tough, we are facing—we face a myriad of challenges, as you know. It is the combination of not only constricted resources because of the deficit that we have to deal with, it is also the societal problems that also feed into this, problems in the family, the single-parent families that we see developing from our society, the problem of drugs, et cetera.

And yet, we either respond to these challenges so we can compete and kind of regain our destiny of our country or we are going to watch this society erode badly in terms of the future. I see we are at that point where we make the kind of decisions to go with the kind of things you are talking about, but if we think we are going to just sit here and tread water, we are going to go down.

Mr. **Brock**. You know what terrifies me, Mr. Chairman, and I am sorry to go on, but I hear people say, well, we don't have any money so we can't do anything; or look, Sweden may have a better school system and Japan may have a better school system, but they are monolithic, they are all the same color and the same value system and we can't do what they do.

Well, I am not sure I want to do what they do, but I am going to tell you this. We have got to compete with them. But we won't if we don't educate our children and give them tools to be productive as human beings, in whatever way we do best. But the idea that because we have got broken families and drugs and crime and a culturally diverse country, which I happen to think is a great asset, but those facts don't change the economic reality of the world. You can't let them be an excuse or cop-out. We just can't.

Mr. **Jones**. Let me just add one thing. As we look at these other countries, I think it is important to suggest that maybe their successes were based on some very structured systems that are now their biggest problem.

We may have our problem here, but the advantage we have, that you get a very clear idea of when you spend time in those countries, that we have the things that are very, very important.

Our philosophy about people in this country is regenerative. We believe people can come back and retrain over and over again. In these other countries, they believe that they are fighting a structure that doesn't want to change—one they have built now for 50 years.

You and I may have a problem with a lack of structure, but it does offer flexibility and the ability to do something, and it is now very clear that we all know what the skills are and what the issues are. There are no silver bullets.

Their ability to respond—for a whole set of different reasons—is going to be every bit as difficult as ours, and perhaps we have a greater opportunity than they do.

The **Chairman**. I have always believed that was our great hope. I think, had we confronted the Japanese and the kind of society they have, out great asset through the years has always been our flexibility and our dynamic kind of society.

We really are that kind of responsive society. And that is our great asset. We just need to make use of that now, because we need to get out of this hole. And that is the problem. We need to resurrect that.

Thank you again, both of you.

Mr. **Brock**. Thank you.

[Additional material submitted for the record follows:]

PREPARED STATEMENT OF HON. TED SANDERS

Mr. Chairman and Members of the Committee:

I am happy to appear before you today to testify on the President's education policy, and in particular our proposed AMERICA 2000 education strategy and our college student aid proposals.

President Bush has demonstrated a commitment to a strong Federal leadership role in American education. He convened an historic Education Summit in 1989 with the Nation's Governors at which the participants agreed that the Federal role in education is to promote opportunity for all our citizens and to pursue excellence in education. As a result of this conference, the President and the Governors adopted our six ambitious National Education Goals to be achieved by the year 2000. And this year, on April 18, the President took another significant step by announcing a long-term national strategy--AMERICA 2000--to achieve the education goals and to make our Nation "all that it should be."

Our proposed 1992 budget of $29.6 billion for the Department of Education is the largest Federal budget ever for education, and includes an increase of $2.5 billion over our 1991 appropriation. It represents about 6 percent of our Nation's total $400 billion annual expenditures for education. It focuses on our highest priorities: providing assistance to the disadvantaged, those with disabilities, and needy college students, and supporting a variety of reform and improvement activities.

AMERICA 2000--An Education Strategy

While our budget, of course, focuses on the Federal responsibility in meeting the Nation's education challenges, the AMERICA 2000 strategy focuses on the entire $400 billion that our Nation spends each year on education.

AMERICA 2000 is not a Federal program. It is a nine-year crusade to transform American education. It is a complex and long-range plan to achieve the transformation that must occur State by State, community by community, school by school, and family by family. It is truly a national strategy that involves all of us--government leaders, the business sector, parents, teachers, principals, students, and community groups. This bold new education strategy focuses simultaneously on four challenges that must be met if we are to close the skills and knowledge gap and achieve the national goals.

The first challenge is to improve education for today's students, to make today's schools better and more accountable. This challenge is complicated by the fact that while most Americans agree there is a serious problem in education in the country, too many believe their own schools and students are doing fine. To deal with this, AMERICA 2000 calls for World Class Standards in five core subjects, voluntary American Achievement Tests to measure progress towards those standards, report cards on performance at all levels, including the school itself, and rewards for schools that show significant improvement in student learning; scholarships for needy students who achieve academic excellence; more and better choices of schools by parents; governors' academies for upgrading the skills of teachers and school leaders; and alternative certification for teachers and principals.

While these efforts will help improve schools for today's students, the second challenge is to create, high-performance schools for tomorrow's students, schools to meet the demands of the new century. To meet this challenge, American business has established a private, nonprofit corporation, the New American Schools Development Corporation. Business leaders are doing an excellent job of getting this effort off the ground. By 1992, the Corporation plans to support about a half-dozen research and development teams. These R & D teams will produce break-the-mold designs for schools that will help all students reach World Class Standards in the five core subjects--English, mathematics, science, history, and geography--as measured by a voluntary nationwide examination system, the American Achievement Tests. While the R & D teams are at work, the AMERICA 2000 strategy calls for short-term Federal assistance to enable at least 535 new schools to be created by 1996, at least one per Congressional district. With this first wave as examples, and with the work of the Corporation, thousands more "break-the-mold" schools can be created by the end of the decade.

At the same time, we also need to focus on yesterday's students--those who are already out of school and in the workforce. Eighty-five percent of Americans who will be in the workforce in the year 2000 are already there. Our third challenge, and the most immediate in terms of our country's competitiveness, is to improve the knowledge and skills of America's adults, today's workforce. If we are to live and work successfully in today's world, we must keep learning, we must go back to school. We adults must set the pace for our children by becoming a Nation of students. To meet this challenge, the Departments of Education and Labor will work closely with business and industry to define job-related skill standards for our Nation's industries, and to encourage clinics in communities and workplaces where adults can have their skills assessed and be referred to education and training programs. We will also establish literacy resource centers to provide technical assistance and coordination for State and local providers of literacy services. Both Departments will work to increase accountability in our adult education and training programs. And this fall, we will co-host a national conference on education for adult Americans.

The fourth challenge, and one I particularly want to address today, involves our communities. For schools to succeed, we must look beyond classrooms to communities and families. Learning doesn't happen just in the schools. In fact, on average, today's young Americans spend barely 9 percent of their first 18 years in school. The other 91 percent is spent elsewhere, outside schools, in the communities, and we must improve that 91 percent. Each of our communities must become a place where learning will happen. The President has challenged every city, town, and neighborhood in the Nation to become an AMERICA 2000 community.

Let me tell you a little about what it means to be an AMERICA 2000 community. To earn that designation, communities must do four things: first, they must make the National Education Goals their own; second, they must develop a community-wide strategy, a plan for reaching the goals by the year 2000; third, they must issue report cards on their progress toward the goals; and fourth, they must agree to create, support, and sustain a New American School.

What will an AMERICA 2000 community look like? Each will be as different as every American community and the people in them. Some will be rural areas, others will be enormous cities, and still others may comprise just one neighborhood. Each community must match its resources to its needs. But they will all have certain things in common. They will all support life-long learning with involvement in schools of local leaders, businesses, parents, and other citizens, as teachers, mentors, role models, and volunteers. They will all bring about a renaissance of American values, attitudes, and behavior. Schools will never be much better than the commitment of their communities. The work of creating and sustaining healthy communities where education really happens can only be performed by those who live in them: by parents, families, neighbors, and all caring adults; by churches, neighborhood associations, community organizations, and other voluntary groups.

Congress, of course, is a key partner in this overall effort, and you, as individual Members, can be a powerful influence in motiviating your own communities in their efforts to reform American education.

The AMERICA 2000 Excellence Education Act

To help States and communities across the country in these efforts, we have proposed a number of initiatives in our 1992 budget and legislation.

- We have requested $180 million to provide seed money for the creation of the first wave of the New American Schools.

- To reward elementary and secondary schools that have demonstrated progress over three years in increasing the number of students who achieve competence in the core academic subjects, we have proposed a Merit Schools program, funded at $100 million.

- We have requested $92.5 million for two programs of Governors' Academies--one for current teachers to enable them to renew and enhance their knowledge and teaching skills in the five core subjects, and one for principals and other school leaders to focus on instructional leadership, school-based management, school reform strategies, and school-level accountability.

- To encourage States to develop and expand flexible certification systems to attract talented professionals with subject area competence or leadership qualities, we have requested $25 million for a program of Alternative Certification of Teachers and Principals.

- Because real educational reform happens school-by-school, the teachers, principals, and parents in each school must be given the authority--and the responsibility--to make important decisions about how the school will operate. We are, therefore, proposing legislation to authorize projects that focus on student outcomes in exchange for increased flexibility in the use of Federal funds.

- Educational choice is one of the most important concepts that communities seeking reform can embrace. Thus, we are proposing three initiatives: an amendment to Chapter 1 to ensure that these compensatory services would "follow the child" who enrolls in a new school or district under a local choice program, a request of $200 million to support and encourage localities that implement choice programs, and a request of $30 million to identify approaches that show potential for expanding educational choice.

- To help monitor progress toward the national goals, we are seeking authority for regular State-representative assessments by the National Assessment of Educational Progress in three grades and all subject areas beginning in 1994. We also seek to remove the legislative ban on the use of NAEP tests below the State level.

Two final initiatives reflect our first legislative successes for our AMERICA 2000 plan, and these are fine examples of what can be accomplished by working together with Congress in a bipartisan fashion. One is the new Education Councils Act of

1991 which creates a National Commission to look at how much time our children ought to spend studying and how that time ought to be used, as well as a National Council to study issues related to creating national standards and testing. I would especially note the efforts of Congressman Kildee--who is a member of both this Committee and the Education and Labor Committee--in this bipartisan achievement. Second, H.R. 751, which recently passed the Congress and is awaiting signature by the President, includes authorization for State Literacy Resource Centers that is very close to the proposal for Regional Literacy Resource Centers included in the President's bill.

Higher Education Act Reauthorization

Our second major thrust for 1992 is the reauthorization of the Higher Education Act. As you know, the Department conducted a thorough review of all current HEA authorities expiring at the end of 1991. The Department also sought and gathered the best ideas and information from all those concerned about the challenges that will face postsecondary education during the coming decade--colleges and universities, higher education associations, State agencies, banks, parents, and students. As a result, three overall themes have guided our proposed changes to the Higher Education Act: improving access to postsecondary education for all Americans, improving educational quality and rewarding excellence, and ensuring integrity and improving service delivery in all HEA programs.

Our budget proposals, of course, also reflect these three themes. We would increase disadvantaged students' access to postsecondary education, for example, by targeting Pell Grants to the lowest-income students, and by expanding precollege outreach and retention efforts. These proposals reflect the facts that rising college costs have hit lower-income students particularly hard, and that there has been a decline in the rate of college attendance by students from low-income families--whose behavior is most sensitive to the availability of grant aid. Our Pell Grant proposals provide increased support for all students, with the greatest increased support for the most needy students (generally, those with family incomes below $20,000) while maintaining current levels of Pell support for less needy students. We would also increase assistance to low-and middle-income students by raising the loan limits for both the need-tested Stafford Loan program and the non need-tested Supplemental Loans for Students program. Under our proposals, aid available would meet total financial need for all students in all income categories at a typical four-year public college.

To reward individual achievement and improve American leadership in the sciences, we would support a new Presidential Achievement Scholarship program and an expansion of the National Science Scholars program. We would also consolidate six graduate fellowship programs into one flexible authority in order to focus on the Nation's most critical areas of national need.

In the area of student loan defaults, the past two budget reconciliations have made substantial improvements in the student loan programs and have given the Department much needed authority to address this issue. Based on this authority, the Department last week implemented a firm approach toward removing high-default schools from the GSL program. However, much remains to be done. Our HEA reauthorization proposals will help to ensure the integrity of the student loan programs, and would make a number of changes to prevent loan defaults, improve collections, ensure the financial viability of guarantee agencies, and give the States a stronger management and oversight role.

In summary, Mr. Chairman, we look forward to working with you and other Members of this Committee and Congress in moving these ideas forward. I will now be happy to respond to your questions.

PREPARED STATEMENT OF SANDRA KESSLER HAMBURG

Mr. Chairman,

My name is Sandra Kessler Hamburg, and I am vice president and director of education studies of the Committee for Economic Development, a nonprofit and nonpartisan research and policy organization comprised of 250 of the nation's top business leaders and educators. I am pleased to have this opportunity to testify on the nation's education reform effort, and specifically on the conclusions CED has reached in its most recent policy report on education, The Unfinished Agenda: A New Vision for Child Development and Education, and its companion research paper, Business Impact on Education and Child Development Reform. I also welcome the invitation, Mr. Chairman, to comment on the new America 2000 Education Program.

In 1992, CED will be celebrating the 50th anniversary of its creation in 1942, when FDR, anticipating the end of the war, formed a committee of business leaders to assist in moving the economy from war to peace. Among the many policies that CED helped devise at that time was the GI bill, perhaps one of the greatest education laws ever enacted by the Congress.

Since then, CED has devoted its attention to those issues that most affect the long-term economic well-being of the nation's citizens. Although CED has usually concentrated on the typical range of economic concerns -- tax and budget, trade and monetary and similar issues -- we have often ventured into the field of education, because we have long believed this issue to have significant consequences for our nation's productivity and competitiveness.

It was for this reason that nearly ten years ago -- well before the release of A Nation at Risk -- CED's trustees embarked on what has

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* The positions taken in this testimony are partially based on CED's policy statements, Investing in Our Children: Business and the Public Schools (1985), Children in Need: Investment Strategies for the Educationally Disadvantaged (1987), and The Unfinished Agenda: A New Vision for Child Development and Education (1991), and the CED research paper, Business Impact on Education and Child Development Reform (1991). However, the views expressed herein are solely those of the author and in no way necessarily represent individual CED trustees or their organizations.

become a series of landmark studies on the role of business in education reform. Taken together, the first two of these reports, Investing in Our Children: Business and the Public Schools and Children in Need: Investment Strategies for the Educationally Disadvantaged, offered a practical blueprint for restructuring the nation's schools and meeting the special health and developmental needs of the disadvantaged. These reports also accomplished something even more significant. Here was an organization of business leaders talking about education and early intervention as "investments" and looking at social programs in a new light -- not just as spending programs that accomplish little and cost the taxpayer money -- but as programs that have real returns which benefit society, such as increased participation in the job market, more tax-paying citizens, and reduced crime, welfare, health, and other costs. This "return on investment" is the spark that has driven business involvement ever since.

CED is proud of the fact that both Investing in Our Children and Children in Need have had a major impact on education reform. For example, Investing in Our Children's recommendations on accountability, "bankrupt" schools, career development of teachers, market-based school incentives, and school-based management have been incorporated into many state and local education restructuring plans. Children in Need has led to a virtual explosion of early intervention initiatives in states and local communities. At the beginning of the 1980s only 8 states funded preschool programs for poor children. By 1990 that number had grown to 35, with 45 having implemented legislation that specifically addresses the needs of the disadvantaged. More than two-thirds of the states have taken steps to reduce the incidence and costs of teen pregnancy. And last year, at the national level, Head Start received, for the first time in its 25-year history, full-funding authorization, which CED recommended in both Investing in Our Children and Children in Need.

Despite these great successes, CED's trustees recognized that the nation's reform efforts were failing to generate the major, measurable improvements in student learning demanded by an ever more competitive global economy. To find out what more should be done, CED's Research and Policy Committee appointed a subcommittee of CED trustees, chaired by James J. Renier, chairman and CEO of Honeywell. The charge to this group was to examine the results of nearly ten years of education reform, identify the barriers to change, and develop a comprehensive vision of education that will enable all children to succeed in school and in life.

The report that resulted is The Unfinished Agenda, and its central thesis is this: unless much more is done to meet the health, social, and developmental needs of all children, both before and while they are in school, the nation's ambitious education goals are destined to fail.

The reason is clear: dramatic societal changes have forced public schools to assume responsibilities for the welfare of children that go well beyond their traditional educational mission. Jim Renier, who earlier this year testified so eloquently before this committee on the importance of the WIC program to the health and development of poor children, learned first-hand of the consequences of the social agenda from his experience as chairman of the "Success by 6" program in Minneapolis. Jim has observed that the social problems of students -- poverty, drug abuse, violence in the streets, the disintegration of the family -- are overwhelming the schools. As a result teachers are forced to spend most of their time not on academics, but dealing with the consequences of social failure.

CED estimates that as many as 40 percent of the nation's children are at risk even before they reach the schoolhouse door. The reasons for this are many but they stem increasingly from the disturbing rise in the number of households headed by single parents -- mostly women and largely poor or near poor. During the past forty years, the number of babies born each year to unmarried mothers has increased by 600 percent, from one in twenty-five to one in four. One third of these births are to teens. While many single parents have provided supportive and nurturing homes for their children, the odds are stacked against them. The William T. Grant Foundation estimates that nine out of ten families headed by a young single mother who is a high school dropout are living below the poverty line. And the problem continues to get worse. As many as 2 out of 3 babies born in the District of Columbia are born to mothers out of wedlock.

What this means for children is that more of them -- 25 percent of all children under age six -- are living in poverty. Children of color bear an even greater share of this burden. In 1987 nearly half of all black and more than two of every five latino children under 6 lived in poverty. Not only are these children more likely than white children to be living in poverty, they are much more likely to be living in long-term poverty.

Other social problems plague our children and teenagers -- many but not all stemming from poverty. Last year, almost 11 percent of all newborn children were exposed to illegal drugs while still in the womb. The death rate among black males in Harlem is higher than in many Third World countries, largely due to inordinately high levels of violence. Decent health care is becoming scarcer in poor areas, both urban and rural. Emergency rooms generally stand in for the family doctor and few preventive services, such as immunizations, are accessible to the poor and poorly educated.

It is not only poor children who are failing in school. Every indicator of academic achievement shows that the average student is lagging well behind students in our competitor nations. Part of the answer is less demanding curriculums and lower standards. But even children who come from middle-class families are under greater social stress than they once were. More than half of all women with children under the age of six are in the work force, and only 8 percent of school-age children live in families where the father works and the mother stays home. A three-year-old in full-time child care outside the home typically spends about half his waking hours in the care of adults other than his parents.

As outlined in The Unfinished Agenda, CED believes that we can shift the social burden from teachers and help kids become better able to compete academically. However, as a society, we must be willing to think differently about children's developmental and educational needs than we currently do.

First and foremost, the nation needs to recognize that in a very real sense, education begins at birth and not when children enter school. Children are born to learn, and they must be healthy and well nurtured to do so properly. This means they need prenatal care, proper nutrition, preventive health care, and developmental learning experiences in the home and in both child care and preschool settings. They also need good parenting, and our policies must recognize the primary importance of strengthening families.

The problem confronting many families and their children is not necessarily lack of available help -- although key programs like WIC and Head Start still only reach a minority of the families that need them. So often these and other services are scattered throughout the community and are not accessible to parents. What CED calls for is a reorganization of how these programs are administered and delivered so that they can be available at a single site in the community or a school building. To that end, CED urges every community to conduct a systematic assessment of the programs available for meeting the needs of children and families.

CED has spent some time looking into the federal role in dealing with this problem. Included is a call for additional resources for strategic intervention programs that we know work, such as Head Start, WIC, and immunizations. But there are two other areas in which we believe it is essential for the federal government to be involved -- coordinating programs in education and child development and education research and development.

The federal government needs to assess its own stock of children's programs, both in terms of their effectiveness and the efficiency in which they are delivered. We currently have children's programs scattered all over the government. We have educational support programs in one department and child development in another. We have Head Start in one agency of HHS and child care for dependent mothers in another. We have nutrition programs for poor mothers and children in Agriculture and AFDC in HHS. Each has separate authorization, appropriation, and bureaucracy. The result is that by the time the programs reach the state level they multiply considerably. Until recently, California had 160 programs for children and youth overseen by 37 different agencies in seven different departments. We have little way of knowing how well these programs reach their intended constituents. While we do have some evidence about how some of our programs are working, such as Head Start, WIC, and others, we do not have the slightest clue how the totality is affecting the ability of students to succeed in school. We are encouraged, however, by the recent announcement of a new HHS working group, co-chaired by Jim Renier, that will look at ways to coordinate efforts throughout federal and state governments to ensure school readiness.

This discussion of the federal role in education leads me to a consideration of the President's America 2000 education strategy. On the whole, CED is very supportive of the scope and intent of America 2000. The President, in articulating his vision, has placed education at the top of the national agenda, where it belongs. Many of the key initiatives to increase accountability, improve assessment, encourage more flexible use of federal resources, bolster the skills of teachers and principals, and identify employability skills reflect positions CED has consistently taken in all three of its education studies, beginning with Investing in Our Children. The specifics of these positions are described in the attached comparison between America 2000 and the CED education program. However, there are two key points on which we have concerns, and I would like to discuss these.

The first concerns the role of the federal government in supporting educational R&D. In all of its education reports, CED has consistently recommended a vigorous federal effort in this area and, indeed, views this as one of the key areas for increased federal investment in education. Our concern, however, lies with the reliance on private sector contributions to support the new development effort to create a cadre of New American Schools. Our concern is two-fold. Corporations are already contributing extensively to innovative education and child development projects at the state and local level. But given the state of the economy and the pressures business leaders might feel to contribute to the new development corporation, current corporate donations to promising initiatives may be diverted or even cut back. This could send a discouraging message to those practitioners who have been working on the innovative approaches that could feed into "new American schools." We would therefore urge the development effort to identify and nurture the many excellent programs and approaches that already exist and which work, such as the Comer process, the Park East Secondary School in East Harlem, and the Albuquerque New Futures School for teen mothers and their children.

A second area of concern is with the private school choice plan proposed by America 2000. CED has long supported choice among public schools. We believe public school choice can inject a healthy dose of competition into education. But CED's trustees do not believe that choice, by itself, will drive educational change. As we point out in The Unfinished Agenda, public school choice should be applied only where it is part of an overall program to restructure the schools, where there is adequate accountability, and where the special needs of disadvantaged students are taken into account. We firmly believe that the first obligation of society is to guarantee every child access to quality education, not just the lucky few who happen to live in the right neighborhood or who have parents who can work the system. It is precisely the most vulnerable children who would be left in the worst performing schools in a private school voucher system. However, we recognize that we don't really know how such a system might effect the overall quality of education, since there are no good examples of where private vouchers have been tried extensively and long enough. In a recent op-ed article in the New York Times, CED's chairman, Brad Butler, former chairman of Procter & Gamble, suggested that if the Administration is determined to introduce private school choice, it should be done as a carefully controlled experiment. As Mr. Butler says, and I quote: "The nation should not be rushing headlong down the path of private school vouchers until we know how the system might work in practice."

I would like to close with some observations from the research report CED published in June called Business Impact on Education and Child Development Reform. This analytical effort was commissioned by CED as background for The Unfinished Agenda, and was authored by Mike Timpane, president of Teachers College, Columbia University, and Laurie Miller McNeill, research associate at Teachers College.

In their analysis of nearly a decade of education reform, Timpane and Miller McNeill conclude that we indeed have a long way to go to achieve the results in education our nation needs. However, the trends in reform that they see, particularly the emerging understanding of the broad needs of children, lead them to be "cautiously optimistic." They believe we are on the right track, and that many of the education initiatives currently being implemented are symbolic of a new commitment to the development of all our human resources. They give considerable credit to the business community in driving this new agenda and note that in many, if not most, states the new reforms would not have passed without business support.

We must continue to harness that energy and forward drive to complete this most critical task. And that, Mr. Chairman, is our nation's pledge to educate all children to their fullest capacity. If we fail in this effort, nothing less than our future as a free and democratic nation will be at stake.

COMPARISON OF AMERICA 2000 AND CED EDUCATION PROGRAMS

Summary

The President's new America 2000 Education Strategy is remarkably consistent with the body of recommendations that CED has developed in its three education reports: Investing in Our Children: Business and the Public Schools (1985), Children in Need: Investment Strategies for the Educationally Disadvantaged (1987), and The Unfinished Agenda: A New Vision for Child Development and Education (1991).

Although we may differ on some of the details, the large themes of America 2000 echo key CED recommendations on educational innovation, bottom-up management, increasing accountability, improving assessment, more flexible use of resources, bolstering the skills of teachers and principals, increasing parental involvement, identifying employability skills, and recognizing the importance of the "social agenda" and the need to go beyond narrow school-based reform. Nevertheless, the America 2000 Education Strategy contains few specific early intervention and early childhood education strategies to address the number one national education goal -- Readiness to Learn. However, some initiatives currently underway at the Department of Health and Human Services are addressing this issue. The following compares specific points in the America 2000 Education Strategy with CED's policy positions.

America 2000	CED Policies on Education and Child Development
Standards and Assessment	
National standards in five core subjects (English, math, science, history, and geography) will be established. America 2000 does not support a national curriculum.	In Investing in Our Children, CED called for all children to master the basics of written and verbal communication, math computation and reasoning, and have a common knowledge of history and literature. CED also called for the development of a "common curriculum" that incorporates the skills and knowledge needed in a modern, technological society. CED has not supported the development of a rigid national curriculum.
America 2000 wants to allow the National Assessment of Educational Progress (NAEP) to conduct state-by-state assessments and comparisons of schools and school districts. Schools, school districts, and states will be encouraged to issue regular report cards on their educational performance.	CED made this recommendation in Investing in Our Children and again in The Unfinished Agenda. CED has also called for comparative reporting by schools, school districts, and states.

A system of voluntary national examinations, which will test both basics and higher order skills, will be developed for fourth, eighth and twelfth grade students in the core subjects. Employers will be urged to pay attention to the tests in hiring.	Investing in Our Children recommended achievement testing at specified intervals (i.e. third, fifth, or eighth grades) in basic reading, writing, and math skills as well as in key content areas. States would have the discretion on which grades to test. CED has also consistently called for the development of new assessment mechanisms that go beyond multiple choice tests to assess higher order skills, i.e. performance assessments or portfolios. In The Unfinished Agenda, we recommended that employers asked prospective entry-level employees for high school transcripts or report cards.

Innovation

America 2000 calls on business to lead and fund a new nonprofit research and development corporation that will identify and create innovative approaches to education. Business will be asked to raise $150 to $200 million for this effort. Part of the innovation effort involves the creation on 535 new "America 2000 Schools." Each school will receive $1 million in start-up funds to apply innovative approaches and become national models of innovation.	In all three of its policy statements on education, CED calls for more federal support for research and development in innovative approaches to teaching and learning for all students, particularly the disadvantaged. CED has also consistently called on local and state education systems to apply the principles of programs that work in a systematic way.

Choice

America 2000 supports increased parental choice as a primary strategy for improving schools. The centerpiece of this initiative is a $200 million incentive grant program to encourage local communities to adopt choice plans. It is understood that to qualify for a grant a community would have to include private schools in their choice plan. America 2000 also proposes a $30 million national school choice demonstration project and allowing Chapter 1 money to follow individual children to whatever school they attend.	In The Unfinished Agenda, CED supports choice only in the public schools and where it is part of an overall program of educational restructuring that pays particular attention to the needs of the disadvantaged. CED also supported public school choice in Investing in Our Children through a system of "universal magnet schools" that would ensure a broad range of effective educational programs for all children in a community.

Teachers, Principals, and School Site Reform

The America 2000 plan focuses on individual schools as the locus of change and proposes more local autonomy for teachers, principals, and parents to decide how the school should operate.	This proposal directly parallels CED's consistent call for "bottom-up" reform that propels change in the school building and the classroom.
America 2000 proposes greater flexibility in the use of federal resources for education in exchange for enhanced accountability for results.	CED made this recommendation in The Unfinished Agenda. Earlier, in Investing in Our Children CED called on states to exempt the best performing school districts from unnecessary rules and regulations.
America 2000 would provide federal seed money for professional academies to upgrade the leadership skills of principals and teachers in each state.	This proposal is consistent with CED's calls for the revitalization of Teachers Centers and programs to improve principals' management skills in Investing in Our Children.
America 2000 would encourage differential pay for teachers of core subjects, who teach in difficult situations, who mentor other teachers, and who teach well.	This is very consistent with recommendations in Investing in Our Children on using pay differentials and other financial incentives to reward excellent performance and to attract qualified teachers to shortage areas, such as science, math, and inner-city schools. Also recommended were new teacher career ladders, which would include mentoring roles, that would tie compensation to greater responsibility. CED also recommended small grants and fellowships to enable teachers to develop and replicate innovations in the classroom.
America 2000 would provide grants to encourage states and local districts to develop alternative certification routes for teachers and principals.	Investing in Our Children recommended greater flexibility in certification requirements, but goes much further in proposing improvements overall in teacher training and development.

Incentives

America 2000 has proposed $40 million in grants to school districts that show significant gains in student achievement and scholarships to reward academic excellence among low income students. Citations will be given to high school students who excel on the new achievement tests.	CED has made no recommendation on the issue of monetary rewards to individual students, but in Investing in Our Children we endorsed the concept of awarding honors diplomas to reward students for superior achievement. CED also recommended giving financial awards to an entire school staff to reward overall school improvement.

The Social Agenda

America 2000 calls on communities to become "America 2000 Communities," by agreeing to adopt the six national education goals, developing strategies for meeting the goals, and measuring their attainment. Each America 2000 community must be willing to create one of the 535 New American Schools (see above). Priority will be given to communities with large numbers of at-risk children.	In spirit, this proposal corresponds to CED call in The Unfinished Agenda for broad-based communitywide coalitions of business, education, and community leaders to tackle change at the local level. A key CED recommendation calls on communities and their school systems to conduct an inventory of how they are meeting the educational and developmental needs of children and to devise strategies for addressing unmet needs.
America 2000 calls on the nation's governors and the Domestic Policy Council's Economic Empowerment Task Force to develop strategies for streamlining and coordinating federal, state, and local health and human services programs for children and families. At the federal level, the Department of Health and Human Services recently announced the consolidation of a number of separate programs for children and families, including Head Start, under a single children's agency. HHS and the Department of Education have also established an interagency task force to develop strategies for linking schools with social services.	In The Unfinished Agenda, CED calls for greater coordination of programs and new linkages between health and human services program and the education system at every level.

Links to the Work Place

Business and labor are being asked to establish job-related and industry-specific skill standards and to develop skill certificates.	In Investing in Our Children we call on employers to provide regular feedback to schools on the skill needs of the work place. In The Unfinished Agenda CED urges business to take a leadership role in working with education and the community to develop performance-based goals that reflect real adult skill needs.
The America 2000 proposal calls for the development of Skill Clinics in every community to help current workers upgrade their skills and knowledge.	This strategy is generally supported in An America That Works, which identifies effective examples of consortium-led industry-based training programs.

PREPARED STATEMENT OF GORDON M. AMBACH

Mr. Chairman, Members of the Committee, and Staff Members of the Committee, I am privileged to have your invitation to testify on the challenge of achieving national education goals, setting policy for national education testing, and the opportunity before the United States' Congress and the President to bring high performance into all American schools. I have two major recommendations for you. First, is to enact a national education goals bill. Second, is to establish a national student testing system. May I summarize these proposals and, then, present the case for action on them now.

Two Recommendations

The Congress and the President have a unique opportunity to cast a new direction for Federal programs which is necessary to reshape the education of American students for the 21st Century. The context is right and the parts of a comprehensive strategy can be combined in a bill which would be as significant in 1991 for the improvement of American education as was enactment of the National Defense Education Act of 1958, enactment of the Elementary and Secondary Education Act of 1965 and several other Federal education acts over the last two centuries.

Last year the House of Representatives in a strong, bi-partisan fashion developed a national education goals bill, H.R. 5932, the Excellence and Equity in Education Act of 1990. In October it passed the House, not only once but twice. Unfortunately, it was snagged in the Senate on procedural grounds in the very last minutes of the session. If H.R. 5932 had passed, you would now have in place an endorsement of the education goals and Federal policies to achieve the goals; the adult literacy program; a major professional development program; a merit schools program built on Chapter 1; alternative certification of teachers; a flexibility demonstration; a demonstration of use of choice in the public schools; and other activities designed to use Federal funds to achieve national goals. It is a shame the act did not pass last year to enable states and localities to move on the goals.

The parts of a new act are in many respects already available to the Congress. The task is to craft them into a single strategy. To assist this process we have recommended a legislative design for America 21. It starts with key provisions of H.R. 5932 and S.2, Strengthening Education for American Families Act, currently reported out of the Senate Committee on Labor and Human Resources and being considered in the Senate together with the proposals of America 2000. In Attachment 3 to this statement, I have summarized the major topics of the act and, by reference to certain bills before the House of Representatives and the Senate, recommended a way in which the best elements of these several bills may be drawn together in a Federal strategy for supporting the change needed to achieve a complete system of high performance schools for this country.

In the proposed national education goals bill, America 21, we match Federal programs with the goals. For example, the build out of Head Start, combined with state and local pre-Kindergarten programs to serve all economically disadvantaged children, is the central effort to achieve Goal 1, Readiness for School. The provisions of America 21 do not encompass the entire Federal effort needed to achieve Goals 2, 3, and 4. As provided in both H.R. 5932 and

S.2, policies of the Federal government must assure all children eligible for Chapter 1 are provided services; assure the initial intentions of the Federal proportion of support for children with handicapping conditions are met; and provide for expansion of specific efforts to strengthen learning in mathematics and science already authorized in Federal statute. These are essential to achieving a 90% graduation rate and high performance in achievement in several subjects, including mathematics and science, but these steps must be supplemented.

America 21 features a major Federal initiative and commitment of resources focused on more comprehensive restructuring or systemic change of schools to bring up the quality in all of them. I urge your attention to the recommended Title III. To achieve the goals of 90% graduation with substantial improvement in academic achievement, particularly in mathematics and science, we must have a comprehensive, integrated strategy to create high performance schools for all students. The strategy must include support for research and development; start-up grants to generate high performance schools; support for teacher and school leader education and retraining; and a major commitment to incorporate learning technologies into high performance schools. The new Federal effort must be built around coordinated use of Federally-funded activities connected directly with state and local initiatives to reform schools. The funds must be used in accordance with comprehensive, long range state and local education agency plans.

We are well aware of the extremely tight Federal budget and the limits set for the next three years. But this is the time to stake out a program for the decade and to use limited Federal expenditure in the next three years by concentrating on direct impact of some 10% or 20% of the schools most in need of reform, while laying the foundation for an expanded effort in the latter part of the decade. At a time of "pay/go," we support enactment of a dedicated tax for such a Federal reform initiative. We believe the American public is prepared to support such increased revenues dedicated to a specific Federal strategy for high performance schools and achievement of the national goals for education because such investment in education reform is absolutely essential to the world-wide competitive economic position of America and to security and peace in the world.

The second recommendation for action is on national student testing. The characteristics of achievement tests and the use of such tests can have a profound impact on what and how students learn. Across the nation we are having an important debate about the ways tests are constructed and the use of tests at local, state, and Federal levels. The debate on testing is critical to the task of stimulating effort to achieve national goals and to monitoring progress on the goals.

Those of us serving at the state level have long debated the questions of the place for national testing. We have concluded as follows:

(1) A nationwide testing system with Federal, state and local components should be authorized formally through Federal legislation.

(2) A new national entity, a National Board for Student Testing, should be established in the law. The national board would be responsible for setting standards and oversight of assessments with authority to recommend but not require that various tests be developed. The law would specify the uses for which any national tests or examinations would be created.

(3) The nationwide testing system would include both program assessments, such as now in the National Assessment of Education Progress (NAEP) and a system of individual student examinations. Both sets of tests would be developed from common standards established by the Board.

(4) The national program assessment part of the system would be a build-out of NAEP.

(5) The component of the system for individual examinations requires extremely careful design work and pilot demonstration of different forms of exams and patterns of their administration among states, localities and the Federal government. The primary use

of such individual exams would be to improve teaching and learning in elementary and secondary education, rather than monitoring performance. The system of individual examinations would be related to curriculum and instruction; it would emphasize testing of mastery of subjects and capacities when students achieve them, rather than on a fixed grade schedule; it would encourage development of a variety of types of testing, including performance assessments; its principal use would be to challenge and motivate students, teachers and schools toward higher performance.

A key Federal investment must be made in expansion of education assessment and information systems. In the 1960s the National Assessment of Education Progress (NAEP) began. It has provided important trend data about education in this country. It must be expanded in the number of subjects assessed and in the use of these assessments on a state-by-state basis. We have already had the first experiences of assessing mathematics, state-by-state. Authority for NAEP testing state-by-state will stop in 1992 unless there is action to expand it. We urge your support of such an expansion, as I have described it in my testimony both before the Senate and the House. (Attachment 1.)

We urge that you increase the resources available for the collection of information on indicators of education such as the report we have done on mathematics and science, state-by-state. (Attachment 2.) If one looks at the comparisons of funds provided for the Department of Labor, Department of Agriculture, the Department of Health and Human Services, in order to keep accurate indicators of progress in labor, health and agriculture, you will see that in each of these fields, the Federal government spends from five to six times as much for basic information as it does in education. In these other fields, the costs range from $240-$300 million just for information about those services. In education, the figure is closer to $55 million at this point. We will not have progress reports on national goals; we will not have the data which tells us whether the Federal investment is effective or not; we will not have the information about good practices in the states or localities -- unless we invest approximately six times more in data collection for education at the Federal level. Keep in mind this would be a cost of $250 million dollar on a nationwide system which now has a $230 billion annual expenditure.

Comment on the Recommendations

Mr. Chairman, in my limited time I have chosen to plunge right into the bottom line recommendations for Congressional action. The reasoning and comment behind these recommendations is provided in the attachments.

I have had opportunity over the past two months to testify on each of the subjects you requested I address. Rather than repeat all of those statements here, I have included four attachments each of which adds detail and rationale. Attachment #1 is a on testing. It is the summary of my presentation to the Interim Council on Standards and Testing at the first Council meeting, June 24, 1991. Two items of testimony back that summary, a statement before the Senate Subcommittee on Education, Humanities and the Arts on the topic, "Question of a National Test: Answer -- a Nationwide Testing System" and a statement before the House Subcommittee on Elementary, Secondary and Vocational Education on "The International Dimension of National Testing."

The second attachment is a press release from our Council and the National Science Foundation on the report of state-by-state indicators of mathematics and science education. This report focuses on student and teacher indicators in those two subjects.

The third attachment is a statement before the House Subcommittee on Elementary, Secondary and Vocational Education on "Achieving National Education Goals." This statement advances the comprehensive and targeted strategy for education reform, "America 21," introduced earlier. It also comments on the Administration's proposal, America 2000. I would, of course, be pleased to expand on those comments.

Finally, Attachment #4 is a copy of my testimony before the Senate Subcommittee on Children, Family, Drugs and Alcoholism on the subject of establishing a Children's Trust. That statement develops our position on a dedicated tax for education in order to provide for a pay-as-you-go expansion for Federal education initiatives critical to reforming the nation's schools.

All of this may appear to stack up as one more educator's special pleading in what must seem to you as never ending requests to rachet up annual education spending in the Federal budget with more increments on existing Federal activities. I am not here to ask for more to do the same. Our Council is advocating fundamental changes in the direction and use of Federal funds and in national testing of education progress. In fact, the position of our Council on issues of national testing was unthinkable even five years ago. We are advocating substantial change because our students will not be prepared for the 21st Century unless the schools challenge them more and provide the opportunity to perform in world class competition.

Why Should The Federal Government Act Now On These Recommendations?

For more than two centuries, the orientation of education policy-making in the United States has been primarily at the state and local level. There have been several occasions for specific Federal initiatives to be taken in association with a particular national need, but the authority and funding has been essentially state and local. Within the past 15 years, there has been a rapid growth of concern about the "national interest" in education and the need for national strategy to strengthen education. This has come about for several reasons. First, and foremost, is international economic competition. Our markets are not national but international, American students must be prepared for work in an economy in which much work may be performed by a workforce located in many different locations around the globe. Working smarter is absolutely critical to keep the jobs at home and to maintain the nation's economic strength. Preparing to "work smarter" is not only a state and local issue, it is a national issue.

Second is the factor of the U.S. role in international peace-keeping and the nation's security. We did not send 50 armed forces to the Persian Gulf; it was one single U.S. armed force. No matter where the U.S. troops grow up or live, they are expected to operate with common terms, language, tactics, strategies, technologies, and systems of communication. The complexity of modern warfare requires a commonality of skill and capacity which is nationwide.

The third factor is population mobility. In the United States families criss-cross over state and local boundaries with greater frequency. They expect a move across borders will not disrupt the student's educational program or progress.

The fourth is a concern for providing equality of opportunity for education throughout the land. This factor has guided most Federal acts since the 1960s.

Fifth is the increasing need to couple education strategy together with health and social service strategies. Since these latter services are so much influenced by Federal law and administration, there has been a natural growth of interest in linking education policymaking more closely with national policymaking with these other services. An example of this is enactment of the Family Support Act of 1988. This welfare reform act, of course, is really an education act designed to help dependent persons learn their way to new employment and independence.

Sixth, is increasing recognition, indeed "admission," of the fact that education in Idaho, or Alabama, or Vermont which uses similar materials, textbooks, tests, course requirements, Carnegie units, structure, etc. has more nationwide commonality than difference. If change or innovation is needed, why invent it 50 times over. Using scarce talent and scarce resources for research and development, startup activities of innovation and strategies for change, and improved testing calls for nationwide action.

Seventh is the understanding that even though the states are the prime jurisdictions for education policy and change in policy, Federal incentives and prodding are important to stimulate and realize state action.

These factors have led the nation within just the past two years to the unprecedented establishment of national education goals by the President and the Governors. They have led to the current debate about national testing, shot through with the issues of both how to improve the quality of educational results through use of testing and which jurisdiction (local, state or Federal) ought to be in charge of the challenge of reform.

There is an important Federal mission to be launched. For the 1990s it is a mission which must match the types of major initiatives that the Federal government has used from time to time through the last two centuries to achievement of national goals. The Federal government has never had the direct responsibility for education, but when a special need has arisen, recall what has happened. Two centuries ago when a major activity was expansion of the nation to the West, the Federal government established the concept of Land Grants to assure that common schools were available in all communities, particularly through the model of the Northwest Ordinance. In the latter part of the 19th Century when reconstruction of the nation and the development of our mechanized agricultural and industrial capacity was so important, the Federal government established the Land Grant Colleges and Universities. Over the past century and a third, they have been powerhouses of research and development and education of a technical and professional workforce unmatched in the world. The universities transformed this nation's technological capacity in a way not available in other countries.

In 1867, the Office of Education was established to report on progress of education in the nation, a monitoring role it carries to the present.

In the early 20th Century, at the onset of mass production and at the time of World War I, the Federal government enacted the vocational education and vocational rehabilitation programs in order to assure workers were properly skill trained. During the Depression years of the thirties, several Federal initiatives in child care, early childhood education, school construction under WPA and other education support programs were enacted as part of economic recovery.

Post-World War II, the G.I. Bill was the major act. It had an extraordinary impact on opportunities for higher education, more than any other single action ever taken by any of the states or the Federal government. In the latter 1950s the National Defense Education Act was enacted in response to Sputnik and focused on programs to attract new teachers and retrain those in practice.

In the 1960s, the Elementary and Secondary Education Act, the Higher Education Act, Library Services and Construction Act, Manpower Development and Training Act, and other initiatives were started especially to provide equity and opportunity in elementary, secondary and post-secondary education. The mid-60s also brought Head Start, the recognition of a Federal commitment to poor children and their families in order to assure they would be at the starting gate of school ready to succeed alongside their more affluent peers. In the Seventies came the Education of all Handicapped Children Act, a further expansion of equity and opportunity for the disabled. From that time to this, the various acts have been reshaped through reauthorizations with the basic directions and purposes kept in tact.

There is extensive Federal legislation on the books. One principal problem is that the promise of these acts, whether Chapter 1, or education of all disabled children, or Pell Grants, is not realized because they are underfunded. The target populations are not fully served. If we are to achieve national goals in this nation, especially the goal of a 90% high school graduation rate with a program of high standard and quality, it is essential that the 28% to 30% of the population which is either economically disadvantaged or disabled, is served to the point at which a large portion of those persons are guided to graduation.

The challenge of the 1990s is not just to assure equity and opportunity for those who would otherwise not be adequately served. The challenge is also to reshape the rigor, quality, and standards of the education program for all children to meet world class standards and prepare for world wide competition. The 1990s are a time to address systemic change, comprehensive school-wide change. They are time for reexamination of each of the separate subject areas, not only to assure they are up-to-date and of challenging rigor, but to assure they are linked in an interdisciplinary sense. Most important in this decade is to assure educational content demands higher order thinking with students developing capacity for creativity, analysis, questioning, and judgement which enables them to deal with ever-changing circumstances and fashion informed solutions for situations new to them.

Reform of this order requires communities and education personnel to carefully set education goals and targets and to thoughtfully design strategies. It requires the opportunity for those who are operating school systems to be able to retrain or renew themselves in new techniques and practices. It requires careful but thorough introduction of the new technologies which have transformed our businesses, military, and health systems, but have nowhere nearly penetrated the schools.

While the Federal role in the past has been to target a particular subject area such as vocational education or to target a particular population group, such as migrant children or economically disadvantaged children, in the Nineties in addition to such targeting, the Federal government must help states and localities to transform the institutions themselves. The Federal government cannot do it all. It can provide important incentives. It can provide resources that enable states and localities to build out plans for reform. Most important, it can provide the resources to generate and inspire reform, start up institution change and retrain staff.

The Federal initiative America 21 will require a significant additional investment over the decade, not a popular thought in light of budget problems. The crisis in S&Ls is drawing billions in bail-out. The crisis in the Persian Gulf has required substantial added expenditures. The crisis in reshaping American education demands Federal action which should be considered against the following perspective on Federal expenditures for elementary and secondary schools. In 1965-66, Federal funds were 7.9% of the total Federal, state and local expenditures for elementary and secondary education. The percentage increased to 9.8% in 1979-80. By 1988-89, the percentage had dropped to 5.6%. If the Federal level were continuing at 1979-80 proportions of total elementary and secondary expenditures, today it would be $22.1 billion. It is now $17 billion; the gap is $5.1 billion. If America 21 were fully funded in its first year, the cost would be less than 2/5 of that gap, less than $2 billion.

According to the Department of Education's own reports, between Fiscal Year 1980 and Fiscal Year 1990, after adjusting for inflation, Federal program funds for elementary and secondary education, declined 15%. In constant Fiscal Year 1990 dollars, Federal expenditures in 1990 are back to where they were in Fiscal Year 1970. The use of Federal funding to have an impact on elementary and secondary education has gained no ground for twenty years. The decade of the 1970s showed significant increases in commitment to Federal funding for education. Those increases have all been wiped out in the past decade. The challenge is twofold: (1) to regain the momentum of the 1970s in providing funding for programs of equity and opportunity, such as Chapter 1 and support for disabled students, so that full service is provided; (2) to build a new initiative on the scale of an NDEA, or ESEA, or the initial Land Grant College program which sets a vision and a strategy to reform our schools in the 1990s to serve students for the 21st Century.

Mr. Chairman, Members of the Committee, I appreciate the opportunity to provide an overview of recommendations for action in education. I have tried to place the details in the attachments and use my time to provide the context for you to analyze the level of expenditure and the type of initiatives the Federal government should be taking during the 1990s. The context has changed dramatically. I urge you to think of the stakes for our nation and to make space for targeted initiatives directly related to the national goals. Through such instruments of leverage on our system of education, national obligations and responsibilities can be met by preparing every student for success in an international 21st Century. Thank you.

Attachment 1

COUNCIL OF CHIEF STATE SCHOOL OFFICERS

INTERIM COUNCIL ON STANDARDS AND TESTING
NATIONAL EDUCATION GOALS PANEL

OUTLINE OF KEY POINTS
PRESENTATION BY
GORDON M. AMBACH

EXECUTIVE DIRECTOR, CCSSO
JUNE 24, 1991

Council charge: "Advice on the desirability and feasibility of national standards and testing in education."..."The goal of any such (testing) system should be to foster good teaching and learning, as well as to monitor performance." (Excerpts from S.64.)

1. Importance of the Council inquiry for decisions at the national, state, local and international levels. Establishing an informed record for decisions on testing at all government levels and across the levels.

2. Major issues before the Council.
   a. Establishing the purpose of any national testing and the use of test results.
      Options for use of Tests: Information about student performance; trends and comparisons of performance within and outside U.S.; influence curriculum and instruction; motivate student efforts; student selection; student credentials (promotion, diploma); program quality control; program accountability; distribution of Federal aid (opportunity to learn, rewards); support education restructuring (results not process); others. Choice of test use must guide other decisions.
   b. Selecting program assessments (sampling student performance) or individual examinations (every student testing). One national examination vs. a system of examinations.
   c. Authorizing a national structure responsible for standards and testing.

3. Evidence to inform Council deliberations.
   a. NAEP Mathematics and Reading Comprehension Objectives, Test Items and Levels of Proficiency.
   b. State Testing Systems - N.Y. Regents Examinations, etc.
   c. International studies, IEA - Third International Mathematics and Science Study (TIMSS), and testing in other nations (OTA Study)
   d. Other nationwide testing systems--Advanced Placement, SAT, ACT, etc.

4. Recommendations on issues under 2 above.

The Council should propose the following:

(1) A nationwide testing system with Federal, State and local components should be authorized formally through Federal legislation.

(2) A new national entity, A National Board for Student Testing, should be established in the law. The national board would be responsible for setting standards and oversight of assessments with authority to recommend but not require that various tests be developed. The law would specify the uses for which any national tests or examinations would be [illegible].

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(3) The nationwide testing system would include both program assessments, such as now in NAEP, and a system of individual student examinations. Both sets of tests would be developed from common standards established by the Board.

(4) The national program assessment part of the system would be a build-out of NAEP; and

(5) The component of the system for individual examinations requires extremely careful design work and pilot demonstration of different forms of exams and patterns of their administration among states, localities and the Federal government. The primary use of such individual exams would be to improve teaching and learning in elementary and secondary education, rather than monitoring performance. The system of individual examinations would be related to curriculum and instruction; it would emphasize testing of mastery of subjects and capacities when students achieve them, rather than on a fixed grade schedule; it would encourage development of a variety of types of testing, including performance assessments; its principal use would be to challenge and motivate students, teachers and schools toward higher performance.

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COUNCIL OF CHIEF STATE SCHOOL OFFICERS

"QUESTION OF A NATIONAL TEST"
ANSWER: A NATIONWIDE TESTING SYSTEM

GORDON M. AMBACH, EXECUTIVE DIRECTOR
COUNCIL OF CHIEF STATE SCHOOL OFFICERS

MARCH 7, 1991

U.S. SENATE SUBCOMMITTEE ON EDUCATION, ARTS AND HUMANITIES

1. Chairman Pell, members of the Senate Subcommittee, and Staff of the Subcommittee, thank you for this opportunity to respond to your invitation to testify on "Question of a National Test." At the outset, Mr. Chairman, I recognize and commend you and your colleagues who have been advocates for national examinations long before serious consideration was being given to these issues for most of the nation. I note especially your responsibility for authoring the provision for national examinations in the Hawkins-Stafford Act of 1988 and commend you and members of the Subcommittee now for bringing the issues before the Senate in the manner of this hearing.

Testing is at the center of learning. The characteristics and manner of questioning or inquiry guides the form of education. How tests are constructed shapes what is thought and learned and, therefore, decisions about testing must be carefully made. That is especially true now because of the relation of testing to reform and improvement in American education and the location of education decision-making in the United States. Our American pattern of decentralization of authority for education in states and localities is being weighed off against important national goals and purposes for education. Who establishes standards and develops tests is, in many ways, as significant a question as the content of the test. The right combination of common standards with variations of tests which measure progress toward those standards is central to a national solution.

At the very time we search for successful reforms and improvements in education and debate the relative levels of decision-making at different points in the educational structure, we must also adjust to rapidly changing techniques of assessment. While we have a strong need to do things nationally -- to improve opportunities for students nationally and take steps to increase our national competence through education -- we must be certain to enable and encourage variation, experimentation and innovation that enables us to create and recreate ever better systems of testing and learning in the future while we are putting new standards and tests in place now.

2. Our response to a "Question of a National Test" is to recommend "A Nationwide Testing System" which has the following three key elements:

a) A procedure and national entity for setting national standards for student performance, subject by subject.
b) A system of both program assessments (through sampling of student performance) at national, state and local levels to determine program effectiveness and a system of individual examinations which might be nationwide, multi-state, state or local in administration which measure individual student progress on the national standards.

c) A reporting system which enables students, parents and responsible education officials anywhere in the United States to be able to relate any one student's achievement to the national standards and the performance of other students in the community, state, nation, and even the world.

3. The first element is to establish a procedure and an entity for setting national standards for the nationwide testing system. The United States currently has no national entity to establish national student performance standards. Such an entity, or Board, must be carefully designed and established through an Act of the United States Congress and the President. The Board should be comprised of distinguished persons appointed in equal numbers by the Congress and the President. Appointments to the Board should be based on a thorough nomination process which assures Board members will be well-qualified for their responsibility. The Board's responsibility should be to establish "frameworks" of student performance goals and objectives, or standards, upon which both program assessments and individual student examinations are based. The process of setting such frameworks must involve key education authorities at state and local levels.

Although it might seem establishment of such national frameworks is foreign to American education practice, the fact is that such a process is in place for the National Assessment of Educational Progress (NAEP). The process has already been used for the subjects of mathematics, reading and the sciences under the direction of the Council of Chief State School Officers as a part of the development of NAEP examinations. A similar process could be used by the new Board.

A second important responsibility of the Board should be review of various proposed program assessments and individual examinations in order to determine whether they effectively measure the standards established by the Board with reliability and validity. The Board would maintain quality control of various tests to assure rigorous measurement of both what students know and can do. The Board would exercise judgement on effectiveness of a proposed test for its intended purpose and the design for reporting results on the test.

At this time, Mr. Chairman, we are not presenting a specific bill for the creation of the Board, but we would be pleased to assist you and members of the Subcommittee and the Staff in the development of such a bill.

4. Program assessment components of the nationwide testing system might be at the national, state and/or local levels. NAEP provides the basis for the major program assessment component. For nearly a quarter century, NAEP has been providing periodic testing of samples of students across the nation. It provides overall trendlines for student achievement.

In 1988 Congress authorized the use of NAEP on a state by state basis. In 1990 the first use of NAEP on a state by state basis -- mathematics at the eighth grade level -- was implemented. You have authorized state by state NAEP in mathematics at two grade levels and reading at one grade level in 1992. Authority for state by state NAEP, however, stops at that point.

We urge you take action as rapidly as possible to authorize the continuation of NAEP on both a national and state by state basis in five major subject areas -- mathematics, science, reading, writing and history/geography -- each to be tested every two years. We urge, furthermore, that you authorize voluntary participation in NAEP at a school district-wide level for those districts of sufficient size for appropriate NAEP sampling. We have a marked up bill which would accomplish the amendments recommended above.

Within the overall nationwide testing system, NAEP tests would be constructed to measure the subject objectives and standards established through the new Board frameworks described under point (3) above.

5. A nationwide individual examination system should be established within the nationwide testing system. This system could have several different forms of examinations. These might be used on a nationwide basis or by clusters of states or districts, or individual states or school districts. The determination of their use would be made by state or local education authorities. The examinations would be based on standards established by the Board under item (3) above. The types and forms of various examinations would differ, but, as noted above, to be part of the nationwide system they would have to be judged appropriate to measure the national standards by the Board. This system would enable creation of innovative forms of testing, including performance assessment, and enable a variety of approaches by states and localities in establishing individual examinations in an efficient and cost-effective manner. These examinations must be closely associated with the curriculum; used in a variety of patterns at different grade levels according to those points study at which subject mastery is completed; and be used as "high stakes" tests related to credit or credentials for individual students.

States and localities have a variety of existing individual examination systems, the most comprehensive now being the New York State Regents examinations. Different systems, such as that in New York, could be incorporated into the nationwide individual examination systems.

Of special note, Mr. Chairman, is the potential incorporation of the voluntary national examination authorized in the Hawkins-Stafford Act of 1988 into this system. This examination has never been implemented. It could be one part of the nationwide individual examination system, its content guided by the standards of a new national Board.

We recommend you take action to support the research and development needed to establish a nationwide individual examination system.

6. Common and consistent reporting of results from the different program assessments and individual examinations is of central importance in the nationwide testing system. There is now extensive testing at all grade levels for American students. The information from the tests, however, generally cannot be related so that results from one school or school district may be compared with another district within the state, or outside of the state, or outside of the nation. One purpose of the nationwide testing system is to create the means for relating results throughout the system without the necessity of requiring all students at all grade levels in all subjects to be tested on the same tests. Reporting systems must be established nationwide with information on student results related to other education indicators. This enables better understanding of the causes of student success or failure and helps results of testing lead to program and student improvement.

7. Testing systems carry significant costs in student instructional time, teacher time, and in the cost of creation, administration scoring and reporting of test results. Careful estimates must be made on the trade offs between program assessment sampling versus individual examinations and "every student testing." Careful estimates of cost must be made over this decade so that an efficient mix of program assessments and individual examinations is created and coordinated so as to limit costs locally, state by state, and Federal.

A nationwide testing system is essential. Information about the nation's education status is certainly as important as information about the nation's health, its agricultural condition, and the condition of labor and employment. In each of these other areas, the Federal government is now spending approximately six times as much for the collection of information about performance and system indicators as is true in education. The commitment to a nationwide testing system must be accompanied by a commitment to a Federal budget which makes certain the testing system is of as high quality as we expect student performance to be.

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify. I will be pleased to respond to any questions.

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COUNCIL OF CHIEF STATE SCHOOL OFFICERS

INTERNATIONAL DIMENSIONS OF NATIONAL TESTING

STATEMENT BY GORDON AMBACH
EXECUTIVE DIRECTOR, COUNCIL OF CHIEF STATE SCHOOL OFFICERS

BEFORE THE
SUBCOMMITTEE ON ELEMENTARY, SECONDARY AND VOCATIONAL EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES

MARCH 14, 1991

Mr. Chairman, Members of the Subcommittee, and Staff Members of the Subcommittee. Thank you for the opportunity to testify at this important hearing on "National Testing: Pros and Cons." At your request, I will focus my remarks on the international dimensions of national testing. I speak as Executive Director of the Council of Chief State School Officers and as the United States Representative to the General Assembly of the International Association for the Evaluation of Educational Achievement (IEA), the most significant international organization for international studies.

I have four points to make. First, the value of international comparative studies; second, the necessity for a comprehensive framework and principles for conducting international studies; third, the importance of United States' support for IEA studies planned through the decade of the 1990s; and fourth, the relationship between international studies and nationwide assessment in the United States.

1. The Value of International Comparative Education Studies. The value of international comparative education studies includes the following: a) they provide us with an understanding of the differences in curriculum, instructional practices and system structures in the various nations; b) they provide measurement of student achievement in different nations in a format which makes comparisons of results possible; and c) they help us to understand the reasons for the differences in student performance in the various nations. For the United States, with the recent establishment of national education goals, international studies have a new importance in measuring comparative progress, particularly in mathematics and science, toward our goals.

Up until the 1980s, most students and parents thought about student performance in comparison with their neighbors or, perhaps, students in other schools within the school district. As one travels now across the United States talking with students and with parents, their concern is about performance related not only to the neighborhood or community but to student performance in the state, the nation, and particularly to students in other parts of the world. Our students and their parents recognize their future is in an international society and their association with peers around the globe will depend upon the education they have compared to that of students in Sweden, Japan, Singapore, Germany, Nigeria or other countries. They recognize, furthermore, their future employment is in an economy which knows no national boundaries.

The common public notion of international studies of education is typically the view of a graph in the newspaper or on television which rank orders countries according to an aggregate measure of student achievement on a particular math or science test. The assumption too often is that the only purpose of the comparison or the study has been to see who is winning the "education race."

In fact, international studies of education first began with the purpose of learning more about the nature and type of education provided in the several countries so that there could be an understanding of the varied opportunities to learn afforded students in different countries. In order to judge what results yielded from that opportunity to learn, achievement testing was coupled with these analyses of educational programs. Over a period of three decades, a series of studies have reported both a description and analysis of educational programs in different countries and the student achievement results related to those programs.

In the last 15 years, as we have become more and more concerned about the effectiveness of schooling in the United States, we have turned greater attention to the analysis of educational performance in other countries. The result of these studies has brought to light relative achievment levels of American students and, perhaps more important, drawn attention to significant differences in the characteristics of schooling, organization of schools, and the content of instruction in different countries. The variety of approaches to education provides us with a "natural" world-wide laboratory to examine different educational techniques and associated results of student achievement. We need to expand our capacity for such international comparative studies so that we may learn more and more about practices in other countries and the ways in which they may inform policymaking for education in the United States.

2. Frameworks and Principles for International Comparative Studies. International comparative studies must be undertaken with validity, reliability and fairness. Although often difficult, it is extraordinarily important to assure examination of both practices and results is done with careful design for good sampling of student population, valid and reliable testing, and so that there are fair comparisons made where there is considerable variation in instruction or the curriculum. Three years ago through the support of the U.S. Department of Education and the National Science Foundation, the National Academy of Sciences, National Research Council formed a new board, the United States Board for International Comparative Education Studies (BICES), for the purpose of providing guidance to United States funding agencies and to researchers in the U.S. and across the globe on the conduct of international education studies. The Board has issued an important report, "A Framework and Principles for International Comparative Studies in Education," attached to my testimony. There is not time here to review the report, but I would urge your consideration of it. This report has been extremely well received both in the U.S. and abroad. It provides the groundrules for United States' participation in studies in a manner to assure the funding agencies, Members of the Congress and the public of credible results from investments in studies.

3. Support for IEA International Comparative Studies during the Decade of the 1990s. IEA studies have been undertaken for 25 years. The IEA has launched the largest single international study of education ever conducted. In 1993-94 and again in 1997-98, there will be a major study of mathematics and sciences, the Third International Mathematics and Science Study (TIMSS). Nearly 40 nations will participate in this study with sample populations of 9, 13, and 17 year olds being tested. Extensive reviews of their "opportunities to learn" -- the curriculum, instructional and school patterns in the different countries -- will accompany the testing. The United States Department of Education, National Center for Educational Statistics, and the National Science Foundation have already made significant commitments for the implementation of this study. Design work is proceeding under guidance of the IEA headquarters at The Hague and the International Coordinating Center for the study at the University of British Columbia in Vancouver. The design of this study has been significantly influenced by the United States in order that the study will yield significant information on educational programs and results related to progress on National Goal #4, Mathematics and Science.

IEA has other studies underway, including those on early childhood development and education, directed by David Weikart of High Scope Educational Research Foundation in Ypsilanti, Michigan. There are also studies of reading literacy and of the use of computers in education. Still other studies will be launched at the latter part of the decade, probably one of learning languages other than a native language of each country.

I urge your strong support for financing these international comparative studies. The general authority of the U.S. Department of Education and the National Science Foundation is in place; the key is providing resources timely for preparation of state of the art assessments, an effective cross-national cooperation needed for implementation and analysis of the results.

4. International Studies Related to National Testing. The focus of the hearing today is on national testing. The design and conduct of international studies is an important part of discussions of national testing. A major challenge before all of us is in making better sense of the various testing and assessment systems at all levels -- local, state, national and international -- to make them efficient and to provide that results at any level may be related to results at other levels.

Mr. Chairman and Members of the Subcommittee, a week ago I had the opportunity to testify on the topic "Question of a National Test" before the Senate Subcommittee on Education, Arts and Humanities. In my statement before that subcommittee, which is attached to this statement, we recommended the answer to the question be a nationwide testing system. My comments today on international studies are made in the context of our proposal.

International comparisons in education have been and can continue to be based on assessments which sample student achievement. In international studies we are interested in knowing how entire systems or units of education perform rather than how each individual student performs. However, through international studies, we want to have a means by which achievement levels of students in any part of our country through individual examinations can be related to standards and results which are international in scope. International comparisons must be related to national standards which in turn are the guideposts for student performance in any part of the United States. Through the link of national standards related to international assessment, we can determine the relative performance of individuals in the United States to that of students in other countries. The key point here is the importance of having a process and entity for determining national standards for student testing.

I will not dwell on other features of the nation-wide testing system as described in the attached testimony, but I must emphasize the importance of constructing our national system so that there is an efficient connection with our national results to cross national or international comparative studies. This has not happened in the past. It will be a bold move for us to plan and implement a system which makes such relationships possible. But is is imperative that we design such an approach.

To expedite the participation of the United States in international studies, it is essential to plan for development of a nationwide testing system related to international studies as they may be used by the several states. Many states will probably participate in the 1993-94 Third International Mathematics and Science Study (TIMSS) just as the Canadian provinces will participate in addition to Canada as a whole. The states need plan carefully now for 1994 with respect to intentions in participating in NAEP, as well as in the international study. There should be a close relationship between NAEP and the international study and, therefore, we hope there will be early authorization to continue state participation in NAEP. I urge the committee to take action to continue authority for the states to use NAEP on a state-by-state basis in 1994 and beyond so those states which do choose to participate in NAEP and also hope to participate in TIMSS may design their overall state assessment plans accordingly.

In conclusion, Mr. Chairman, I note that studies done through IEA in the 1960s, 70s, and early 1980s, yielded some of the most important information for alerting the United States to the necessity for major reform and restructuring of education. Reports such as the Underachieving Curriculum: Assessing U.S. Mathematics from an International Perspective which came from the second international study of mathematics was very powerful in demonstrating the relatively poor performance of American students in mathematics. These studies have not just displayed achievement results, but they have presented important information about the time committed to instruction, the nature of the instruction, commitments for homework, commitments to standards expected of students which have sent powerful messages to consider here in the United States. We must increase the flow of information from such studies. We cannot be insular nor provincial in our approach to strengthening American education. One of the most important resources of information for reform here is in the examination of education in other countries.

Chairman, Members of the Subcommittee, thank you for the opportunity to appear before you this morning. I will be very pleased to respond to any questions about my remarks.

Thank you.

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Attachment 2

News

Council of Chief State School Officers **Washington, DC**

For Immediate Release
May 28, 1991

CHIEF STATE SCHOOL OFFICERS AND THE NATIONAL SCIENCE FOUNDATION RELEASE STATE-BY-STATE INDICATORS ON SCIENCE AND MATHEMATICS

Washington D.C., May 28, 1991--"The United States has established ambitious goals for mathematics and science education. These goals are both for student performance and for the opportunity our students have to learn these subjects. To realize these goals we must have good reporting on the current status of mathematics and science education and a well developed system to trace progress over the decade. The report released today provides essential base line information for the work of the 1990's," said Gordon Ambach, Executive Director of the Council of Chief State School Officers.

The Council's report on science and mathematics indicators provides the first ever state-by-state data on the condition of science and mathematics education in the nation's public schools.

With support of the National Science Foundation, the Council has worked with the 50 state departments of education to develop a system of comparable state indicators to assess progress in improving science and mathematics education in our public schools. The new report, entitled, *State Indicators of Science and Mathematics Education*, is the initial step in an effort to provide regular, periodic reporting of state science and mathematics indicators.

"The report demonstrates that in implementing educational reform in science and math, we cannot simply use national averages as a guide," says Luther Williams, NSF Assistant Director for Education and Human Resources. "It reveals that there are large differences among the states in student opportunities for learning, and that reform must be implemented on a state-by-state basis. This information will sharpen the national debate about the condition of math and science education in the U.S."

Adds Williams, "One of the more disturbing figures is the number students--less than half of all high school graduates--who take 'algebra 2.' Algebra 2 emphasizes problem solving and the relationships between variables. These concepts are not just an essential base for further study in science and math, they are critical in many manufacturing and technical jobs and help young citizens become discriminating consumers and voters."

Course Enrollments in Science and Mathematics. The state indicators include rates of student course taking in high school mathematics and science. The course taking data provide an indicator of students opportunity to learn science and mathematics at different levels of the curriculum.

As of the 1989-90 school year, the Council reports that 81 percent of public high school students in the U.S. take algebra 1 by the time they graduate, 49 percent take algebra 2, and 9 percent take calculus. Student course taking varies widely by state at all levels of mathematics, for example, the proportion of students taking algebra 2 varies from 65 percent to 33 percent.

As of 1989-90, the Council finds that 95 percent of public high school students in the U.S. take biology by the time they graduate, 45 percent take chemistry, and 20 percent take physics. Course taking in science also varies by state, for example, the proportion of students taking chemistry varies from 62 percent to 33 percent.

As compared to national rates of course taking in 1982, the Council's recent state data show that enrollments have increased at all levels of high school science and mathematics during the 1980's when state graduation requirements were raised in many states. Enrollments in algebra 1 increased from 65 percent in 1982 to 81 percent in 1990, in algebra 2 from 35 percent to 49 percent, and in calculus from 5 percent to 9 percent. Enrollments in biology increased from 75 percent in 1982 to 95 percent in 1990, in chemistry from 31 percent to 45 percent, and in physics from 14 percent to 20 percent.

Sixteen states reported science and mathematics course enrollments by student gender. The data show that rates of course taking are equivalent for male and female students from junior high courses up through trigonometry and chemistry. Boys comprise 55 percent of enrollees in calculus and 60 percent of enrollees in physics; girls comprise 55 percent of enrollees in advanced/second year biology.

Teachers of Science and Mathematics. The Council report also includes indicators of teacher quality and teacher supply and demand. Data on teachers in 30 states show that nine percent of high school mathematics teachers are not certified in mathematics, and eight percent of biology teachers, eight percent of chemistry teachers, and 12 percent of physics teachers are "out-of-field." State-by-state data show that some states have 20 to 30 percent of mathematics and science teachers assigned out-of-field while others have none out-of-field.

Forty-two percent of all high school teachers of mathematics majored in that field in college, and 54 percent of all high school teachers of science majored in a science field. The percent of mathematics teachers that majored in mathematics varies by state from 17 to 62 percent, and the percent of science teachers with majors in science varies from by state from 31 to 73 percent.

In all states there is wide disparity between the percentage of students that are from racial/ethnic minority groups and the percentage of minority science and mathematics teachers. Data from 33 states show that while 32 percent of students are from minority groups, 11 percent of mathematics teachers, 10 percent of biology teachers, and 7 percent of chemistry teachers are from minority groups.

The majority of high school science and mathematics teachers are male, but the sex distribution varies considerably by subject and from state-to-state. Forty-five percent of mathematics teachers are women; the proportion varies by state from 21 to 69 percent. twenty-two percent of physics teachers are women; the proportion varies by state from 10 to 49 percent.

State data on the age distribution of teachers show that 20 percent of high school mathematics teachers and 22 percent of science teachers are over age 50, while, by comparison, 21 percent of all high school teachers are over age 50. The proportion of mathematics and science teachers over age 50 varies by state from 10 percent to over 30 percent.

State Education Indicators System. The Science and Mathematics Indicators Project is one part of the efforts of the Council's State Education Assessment Center to establish a system of state-by-state educational indicators that are used to regularly report on the condition of education in the nation and the states. The Assessment Center was established in 1985 to coordinate the development, analysis, and use of state level data.

The Council's new report on science and mathematics indicators was written by Dr. Rolf K. Blank, the project director, and Ms. Melanie Dalkilic, the project assistant. Copies of the report, *State Indicators of Science and Mathematics Education*, can be ordered for $12.00 per copy, pre-paid, from: Council of Chief State School Officers, State Education Assessment Center, 400 N. Capitol Street, Suite 379, Washington, D.C. 20001, (202) 624-7700.

Attachment 3

COUNCIL OF CHIEF STATE SCHOOL OFFICERS

379 Hall of the States 400 North Capitol Street NW Washington DC 20001-1511 • 202 393-8161 • FAX 202 393-1228
Resource Center on Educational Equity 202 393-8159 State Education Assessment Center 202 624-7700

"ACHIEVING NATIONAL EDUCATION GOALS"

STATEMENT OF GORDON M. AMBACH, EXECUTIVE DIRECTOR, CCSSO BEFORE THE SUBCOMMITTEE ON ELEMENTARY, SECONDARY & VOCATIONAL EDUCATION COMMITTEE ON EDUCATION AND LABOR

JUNE 27, 1991

Mr. Chairman and members of the Subcommittee: the Congress and the President have a unique opportunity to cast a new direction for Federal programs which is necessary to reshape the education of American students for the 21st Century. The context is right and the elements can be combined in Federal legislation which would be as significant in 1991 for the improvement of American education as was enactment of the National Defense Education Act of 1958 and enactment of the Elementary and Secondary Education Act of 1965.

Last year the members of this Subcommittee and the full Committee worked very hard in a strong, bi-partisan fashion to develop a national education goals bill, H.R. 5932, the Excellence and Equity in Education Act of 1990. In October it passed the House, not only once but twice. Unfortunately, it was snagged in the Senate on procedural grounds in the very last minutes of the session. If H.R. 5932 had passed, you would now have in place an endorsement of the goals and Federal policies to achieve the goals; the adult literacy program; a major professional development program; a merit schools program built on Chapter 1; alternative certification of teachers; a flexibility demonstration; a demonstration of use of choice in the public schools; and other activities designed to provide the Federal component for implementing national goals. It is a shame the act did not pass last year to enable the nation to implement the program rather than recrafting the legislation.

National activity now focuses on progress reports on the national goals for education. The new Council on Standards and Testing began its work just Monday. The activity centers on stating the goals, measuring progress on the goals and reporting on them, but Federal action to assist states and localities to actually achieve the goals is at ground zero.

Since last November, we have been urging the Congress to take the national goals bill as a matter of first importance in 1991. Congress has delayed action pending receipt of Administration proposals. You have them, and I urge the Congress, as rapidly as possible, take this one major opportunity you will have in 1991 and 1992 to act on improvement of elementary and secondary education with a comprehensive and coherent national education goals act.

The components of such an act are in many respects already available to you. The task is to craft them into a single strategy. To assist in this process we have recommended a legislative design for America 21. It starts with key provisions of H.R. 5932 and S.2, Strengthening Education for American Families Act, currently reported out of the Senate Committee on Labor and Human Resources and being considered together with the proposals of America 2000. In the outline and summary attached to my statement, we have summarized the major topics of the act and, by reference to certain bills before the House of Representatives and the Senate, recommended a way in which the best elements of these several bills may be drawn together in a Federal strategy for supporting the change needed to achieve a complete system of high performance schools for this country.

Our proposal includes many components already reviewed and approved by the Subcommittee and the House. I will not dwell on those in the brief time available this morning. Rather, I would like to focus on the central question of how Federal programs are directed to achieve goals 2, 3, and 4. The Administration's program, America 2000, advances important concepts and proposals toward this objective, but the proposal is not complete and is deeply flawed in certain ways. I applaud the Administration for the proposal and suggest ways in which the recommendations of America 2000 can be incorporated into a broader strategy for change through America 21.

Permit me, therefore, to call your attention to the outline of America 21 and the items under the proposed Title III, Creating High Performance Schools for the Nation. As we look at the components of this proposal, keep in mind that the recommendations here do not encompass the entire Federal effort needed to achieve goals 2, 3, and 4. As recognized in both H.R. 5932 and S.2, policies of the Federal government must assure all children eligible for Chapter 1 are provided services, assure the initial intentions of the Federal proportion of support for children with handicapping conditions are met, and provide for expansion of specific efforts to strengthen learning in mathematics and science already authorized in Federal statute. These are essential to achieving a 90% graduation rate and high performance in achievement in several subjects, including mathematics and science. There is an additional need for a major Federal initiative and commitment of resources focused on more comprehensive restructuring or systemic change. We recommend this under Title III.

Agreement on national education goals has come with great speed and with the sense of need for national consensus on action to achieve them. Agreement on strategies for implementation, and, particularly, the specific Federal role in eduction, has been much more difficult. To achieve national goals requires that the major types of Federal intervention -- support for student access and equal opportunity; support for research, development and demonstration of innovative programs; support of staff development; and support for materials and learning technologies -- are used to the fullest extent. The new Federal effort must be built around coordinated use of Federally-funded activities connected directly with state and local initiatives to reform schools. The funds must be used in accordance with comprehensive, long range state and local plans.

If Federal programs are to be a driving force for large scale education system change, four concepts which have been well established in restructuring of business, military and other services, must be applied.

1. There must be a thorough design of strategies by those responsible for education performance which integrate actions to move step-by-step from the present to desired high performance schools. This design work must be done by the authorities who control the resources of the education systems with assistance of the best expert advice available. The parts of system change -- R&D, staff development, technological change, implementation and assessment -- must be aligned through an integrated change strategy.

   The lessons of Federal, State, and privately supported efforts over the past 25 years indicate piecemeal programs addressing components of the system do not result in systemic change. When R&D is done through one jurisdiction, staff development through another, learning technologies through yet another -- these separate efforts, which may result in isolated positive results, do not add up to systemic change. When Federal programs are administered sometimes through the states and sometimes directly from the Department of Education to LEAs, there is no cohesive or multiplier impact from the Federal expenditures.

   Federal funds for change of elementary and secondary education (6% of total expenses) must be linked with state education funds and local education funds if leverage for change is to occur. This requires administration of Federal programs through State and local education agencies under Federally approved plans.

2. Programs to support education research and development and to establish new high performance schools must be reshaped into a strategy for developing an entire system of high performing schools. Some comments about the Administration's proposals for R&D and new schools is in order to lead to our recommendation.

   We commend the America 2000 program for business community and business leader funding of education R&D. The effort to provide R&D for comprehensive school change is particularly welcome. There are, however, two enormous gaps in the Administration's program: first, this privately supported R&D program is not directly connected with the institutions that operate schools, state education agencies (SEAs) and local education agencies (LEAs). Second, the effort is not linked with any increase in Federally funded R&D or with the administration and use of current Federally funded R&D.

   We cannot comprehend why the Administration banks solely on a privately funded and managed effort of research as the centerpiece of its design for change for the most important function of government – education. Private enterprise may help, but it is not sound to expect education R&D should be assigned to the private sector any more than the nation would assign R&D for health, security, transportation, or other services to private enterprise. Furthermore, R&D for education has long been considered a major function of the Federal government. Has the Administration given up on the Department's capacity to provide leadership in education R&D?

   We welcome privately funded R&D, but if it is intended to help change a large and complex public enterprise, it must be linked directly with that public enterprise. We urge the Congress to establish within DOE a major R&D institute, with counterparts incorporated in the states, which has the mission of R&D on comprehensive school change and works at real systemic state and local problems and solutions. Private contributions to this institute for education R&D should be encouraged and incorporated in a total program of the institute to be both privately and publicly supported. Indeed, private contributions should be considered an incentive to expand Federal funding for R&D through a matching program. Each private dollar should generate an additional matched Federal dollar for R&D. This would double the effect of private effort envisioned in America 2000 and could lead to support on the order of $400 million. By linking the institute program directly to state and local R&D, a multiplier effect in doing the research and using it to change school practice is attained.

   The authorization of the new research and development institute within the United States Department of Education and a separate authorization for the appropriation would be included in Part A of Title III.

   We need to be reminded of the magnitude of reforming American education, a system with 110,000 schools and $230 billion of expenditures. Schools must change one by one, but they cannot be reformed unless local and state systems provide the leadership, assistance and support for reform. The entire system cannot be reformed unless there is a structured pattern to connect R&D with start up money for demonstration schools and, then, connect the results of demonstration schools with all other schools. There must be a plan for effective multiplier effects from early models to universal practice. The task may start with 500 schools, but we cannot start sensibly unless we know how the start leads to multiplication rapidly reaching 1,000 and 10,000 and tens of thousands of schools in this decade.

   We believe it is imperative to concentrate Federal funds on a "change" strategy which links the Federal effort with state and local plans for change to high performance. Even if all the Federal education programs were aligned in such an effort, the total Federal leverage in the system would be around six percent of expenses. Federal funds which would be added by this program must connect with other Federal funds and must be used to leverage state and local funding for change.

We must also take note that local school districts and states have extensive programs and projects for reform. The Federal effort must have flexibility to nurture and strengthen those reforms and, above all, must reinforce cohesive and systemic reforms rather than a further splintering of energies and approaches.

The core program for creating high performance schools is authorized in Title III, Parts B, C, and D. The appropriation for these programs would be a single line item with funds available to the states and local education agencies for the three purposes. Minimums for allocation for professional development and instructional technology would be required with flexibility for the overall allocation of funding according to a state plan. The state plan would specify the long term strategy of the state to establish a system of high performance schools using the Federal resources for research and development, start up demonstration grants, professional development and learning technology.

Part B should be linked together with the R&D program in Part A so that a state plan and program and local projects would not be approvable unless there were explicit commitments to incorporate R&D findings in the development of high performance schools. Similarly, Part B would be joined with the Federal programs of staff development so that a state plan and program and local projects would not be approvable unless there were explicit commitments to incorporate use of staff training funds in the development of high performance schools.

To start up or transform an existent school to be a high performance schools requires an expenditure beyond regular operating costs. This enables planning, design, building consensus on new direction, purchasing new materials or equipment, restructuring facilities and establishing new ways of operation for schools and school districts. There must be start up funds to leverage change, and they may be needed during a one year period or perhaps over several years for a school. Federal funds for this purpose should be allocated to the states on a formula based on Chapter 1 funding, with a focus on creating high performance schools with priority to serve Chapter 1-eligible students. These funds would be used over the decade to establish an increasing number of high performance schools through a program directly linked with professional development and an emphasis on incorporation of learning technologies.

Federal funds for high performance schools would be administered by state education agencies which would be encouraged to increase the number of high performance schools as rapidly as possible. This could be done by establishing this program initially for a period of five years with fund allocations established for each of the years. A state which is able to accelerate implementation toward complete system reform could do so under an approved plan and be assisted by advanced Federal funds credited against the state's future allocations. No state could receive more than a total of its five year allocation. This provision would stimulate system planning and enable those states making good progress to reach their goals earlier.

The aggregate program under Parts B, C, and D would be authorized at one billion dollars, an amount which is in line with the addition of the several parts of America 2000, H.R. 5932 and S.2 on which it is based. The authorization must be of that size to assure comprehensiveness of strategy and success.

3. Restructuring of business and the military has occurred only where personnel have been trained extensively and continuously to change the way they work. Restructuring requires personnel to work "smarter." It does little good to work smart with yesterday's or last year's methods, practices or equipment; workers must keep current, which means substantial continuing investment in training.

   The change strategy to achieve national education goals must put highest value on staff development, both pre-service and on-the-job. Teacher training was at the heart of NDEA. It has been a part of Federal programming in various Acts, such as the Higher Education Act. But funds for this purpose are far below the need if education practice is to be changed systemically. H.R.5932, Title IV, includes programs for both pre-service and on-the-job professional development in a way which aligns the staff development projects with the other components of system change through state plans and administration. These provisions were passed by the House last year and agreed to by the Administration and Senate leadership. They would be in law now were it not for the procedural block in the Senate last October. We urge those provisions be authorized as Title III, Part C, of America 21 and recommend one half of all funds for Parts B, C and D be committed to staff development.

4. The driving force for restructuring business, military, and other services has been technological change. The impact of developments in computation, automation, robotics, and telecommunications in enterprises other than schools is abundant. Yet, learning technologies are at the margin in most of education. They will stay there unless strategies for change incorporate requirements for use of learning technology at the core of education restructuring. Separate categorical programs for learning technology will not change the system. Use of learning technologies must be required in use of start up funds for high performance schools and in staff development programs. Our recommendation for Part D requires not less than 10% of funds for Parts B, C and D for this purpose. This makes learning technology integral to the other activities.

These four concepts are essential to a strategy for change to a system of high performance schools. We hope you agree and, together with colleagues in the Senate, build this part of the national goals bill around them. We recommend also two other parts of this title -- Part E, Flexibility for Educational Performance, and Part F, Demonstrations of Educational Opportunity and Options for Parents and Students. We have supported earlier versions of "flexibility" and will support H.R. 859 if it includes state agency sign-off on local performance agreements; provisions of funds to state education agencies for required technical assistance; and reimbursement for the costs of those states which participate in the review of regulatory burden.

I will comment more about the "choice" demonstration program and other proposals for "choice" later. Before leaving the proposals for high performance schools and America 2000, I must draw out a fundamental issue of education governance imbedded in the Administration's program. The Administration proposes a radical change in governance of Federal education programs by reassigning responsibility from state and local education agencies to Governors. America 2000 assigns Governors direct control and administrative responsibilities for the selection of new American schools, designation of merit schools, selection of professional development academies for teachers and professional development academies for administrators, awards to teachers, and approval of the Chapter 2 program. The proposal does so without one word of explanation or rationale as to why such a change would better achieve the educational objectives of the program.

If there are good reasons for the change, let the Administration advance them for open debate. We urge that the America 21 program presented here, including any parts of America 2000 as you might incorporate, be administered by state and local education agencies and not by Governors for these reasons:

1) Administration of America 21 programs would be linked, thereby, with existent state and local education authority for state and local funds. It is critical to use Federal funding (6% total expenses) for leveraging state and local funds.

2) Administration of America 21 programs would be linked to the administration of other Federal education programs under SEAs, such as Chapter 1, ESEA, Chapter 2 ESEA, vocational education, Education of All Handicapped Children Act, etc. This is critical for gaining maximum leverage from Federal funds and authority.

3) Administrative assignment of education responsibility to the Governors would supersede established state authority for education now placed with state education agencies. A Governor's authority on education decision-making in any state is established by law within that state, either in the form of the power to appoint a state board of education, appoint a state chief, or through other specific authority. In this manner, states have granted Governors' influence in education decision-making. If a state desires to grant greater powers to the Governor, it should do so, not the Federal government. The role of the Governor in education should be determined by state, not Federal, law.

4) Authority of SEAs to administer Federal education programs is part of the longstanding United States' tradition of assuring that education of children and adults is non-partisan. State structures of education have been established with state boards of education and chief state school officers independent of other functions of government to guarantee education of children and adults transcends partisan politics.

At the local level, our nation has developed a longstanding approach to school governance with non-partisan local school boards and assignment of authority to school boards and superintendents apart from units of general local and municipal government. One trend in public policy today is to add further non-partisan structure for leadership of education through establishing local school or school site councils which decentralize decision-making to the school level and provide for governance of schools with every expectation such control will be non-partisan.

Federal legislation must not bypass state determination and overturn important Federal principles in education where non-partisan approaches have two centuries of standing. Federal programs have been and will continue to be run effectively by non-partisan state and local education agencies. That same structure and system of governance will serve the nation well for creating new schools, operating professional development academies, rewarding teachers, and other purposes.

May I return now to the issue of parent and student option demonstrations. We recommend that the provision for demonstration programs of parent involvement and choice in enrollment, as incorporated in H.R. 5932 of 1990, be included in the comprehensive America 21 program. The House approved these provisions. The Administration and Senate leadership agreed to them, and they form an appropriate authorization for testing or demonstrating the use of Federal funds for "choice," much in the same way Federal funds were used in the 60's and 70's in demonstrations of alternative schools, such as the Alum Rock School District program.

Through demonstration efforts, it is possible to test the feasibility and desirability of various forms of choice, including the payment of public funds for the support of education of children in private schools if the Congress believes that is needed. Through such demonstrations, it is possible to cause court tests, if that is the intention of the Congress or the Administration. It is a vehicle through which the Administration might choose to test a concept advanced in America 2000 which deems private schools eligible for "choice" (except where the courts find a Constitutional bar) by including them in a new definition of "public school." America 2000 states, "The definition of 'public school' should be broadened to mean any school that serves the public and is held accountable by a public authority." (p. 31).

We oppose the commitment of a large scale Federal program of certificates for choice or of the significant alteration of Chapter 1 and 2, programs which already provide services for children in non-public schools. These proposals are not sound. The energy and resources proposed for them should be redirected into the central thrust of a restructuring program which provides research and development, demonstration funds, staff training and learning technologies to develop high performance schools.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to comment on these essential issues before you. We hope an America 21 Act will be realized in 1991, and we will help in any way to make that happen. Thank you.

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America 21
Achieving National Goals for Education
June 27, 1991

Title I--Establishes National Education Goals--Codifies six goals; adds goals for higher education and teacher quality; and sets policies for federal programs related to goals (H.R. 5932, S.2).

Title II--Goal 1, Readiness--Provisions to assure and improve early childhood education services through Head Start and other programs (S. 911).

Title III--Goals 2, 3, 4 and 7: School completion, student achievement and competitiveness in mathematics and science--Creating High Performance Schools for the Nation.

Part A--Research and Development for High Performance Schools--Builds on America 2000 proposal by authorizing public and private education R & D effort to provide $400 million over three year program under leadership of new Institute for Education Research in USDOE.

Part B--Creating High Performance Schools--Start up grants to create high performance schools. Combines concepts from S. 2, Education USA (S. 1135, H.R. 1669;), and America 2000 (H.R. 2460, S. 1141) to create high performance school projects and build state-by-state systems of such schools. Combined appropriations for Part B, C, and D. Funds used under state plan for Parts A, B, C, and D.

Part C--Teacher and School Leader Development--Professional development academies (receiving a minimum of 50% of funds under high performance schools appropriation) to establish and sustain high performance schools; creates a national teacher corps, expands Eisenhower and McAuliffe programs and establishes a teacher recognition program. (Builds on H.R. 5932 of 1990, S. 329, H.R. 2495, H.R. 2460, and S. 1141).

Part D--Learning Technologies--Supports learning technology as essential part of high performance schools (not less than 10% of high performance schools' appropriation) and expands Star Schools (S. 2).

Part E--Flexibility for Better Educational Results-- Demonstrations of flexibility with federal programs based on H.R. 859.

Part F--Student and Parent Opportunities and Options--Demonstration projects based on H.R. 5932 of 1990.

Title IV--Goal 5: Adult Literacy and Economic Productivity--Adult literacy proposals of S. 2. and H.R. 751. Other key provisions for youth and adult employment preparation, including youth apprenticeships, to be added.

Title V--Goal 6: Safe, Drug-Free Schools--Authorization of comprehensive services program of H.R. 812, S. 1133 and potential revisions of Drug-Free Schools.

Title VI--Goal 8: Access to Postsecondary Education--Authorizes ACCESS program of S. 1134. Student aid application simplification of S. 1137 and other provisions to be included in HEA reauthorization.

Title VII--Goals 1-8: Assessing Student Performance and Monitoring the Goals--S. 2 Title II establishing goals monitoring panel. Establishes National Board for Student Assessment.

AMERICA 21
ACHIEVING THE NATIONAL EDUCATION GOALS: A FRAMEWORK FOR LEGISLATION

June 27, 1991

The foundation for "America 21" is H.R. 5932, S. 2, and other bills structured to relate Federal programs to achievement of the goals. The bill must be comprehensive to address all goals and it must provide a streamlined, coordinated use of federal resources targeted to program strategies for changing the education system on a large scale basis. The bill should contain the following titles directed to achieve the national goals:

Title I. Establishing National Education Goals. This title should codify the six national goals, add two important goals for higher education and teacher quality, and link each goal to the federal programs key to its achievement through policy statements committing resources to those programs. (H.R. 5932 and S. 2, Title I.)

Title II. Goal 1: Readiness. S. 911, the School Readiness/Head Start Entitlement Act, should be included as Title II. S. 911 makes Head Start an entitlement and expands vital health and social services for preschool children and their parents.

To assure that every economically disadvantaged three- and four-year-old child has access to early childhood education and development requires expansion of Head Start linked with other federal, state and local efforts. The objective is service for all eligible children, but all eligible children do not have to be served by Head Start dollars. The combination of programs should meet the objective.

Head Start dollars are allocated based on each state's proportionate share of eligible children. These funds should be used in a state plan which leads to service for all children entitled to such service. When all disadvantaged three- and four-year-old children are served, whether through Head Start or some combination of Head Start, Even Start, Chapter 1, and state and local initiatives, states should be authorized to use additional Head Start allocations to upgrade the quality of services, initiate programs for parents and children younger than three years, and/or to extend services of a "follow through" nature to Head Start eligible children in the early grades of school. This provision would encourage states and localities to expand their own initiatives for three- and four-year-old children and to reach the objective of full service to eligible children more rapidly with fairness in allocation of funds among states. States would be permitted to exercise this option by submission and approval of a joint plan by the state education agency and the state agency primarily responsible for children age 0-5 by the Secretary of HHS.

Title III. Goals 2, 3, 4, and 7: School Completion, Student Achievement, and Competitiveness in Mathematics and Science. The goals of increasing graduation rates, improving student performance, and attaining world preeminence in mathematics and science are inseparable. Achieving these goals depends on large scale system change in education through an integrated program of research and development, high performance school demonstrations, teacher and school leader training, and use of learning technologies.

Title III of America 21 should include these components with requirements for the components to be planned and used together according to state and local plans. The title should be structured as follows:

Part A -- R & D for High Performance Schools. Creation of a system of high performance schools must be based on research and development supported by both public and private sources. The R & D effort should be led through an R & D Institute within the U.S. Department of Education which administers a program to solve systemic state and local education problems. The Institute should be authorized at $200 million over 3 years, with provisions for the federal funds to be used on a match, dollar for dollar, with contributions from the private sector for the Institute. This would double the effect of the private funding and lead to support of up to $400 million for educational R & D.

The Institute would support R & D in national centers and for states or consortia of states on high performance schools. The Institute's work would be linked to state and local development of high performance schools. State plans and local projects for high performance schools under Part B would be required to include explicit commitment to use the R & D studies and findings in their projects.

Single State Plan for Parts B, C, and D. Parts B, C, and D below to authorize and provide funds for states to establish high performance schools, recruit and provide new professional development opportunities for teachers and school leaders, and use learning technologies are connected through the submission and approval of a single state plan for allocation and use of the funds among the three activities and integration of the program components.

Part B – Creating High Performance Schools. To start up or transform an existing school to be a high performance school requires an expenditure beyond operating costs for planning, design, building consensus on a new direction and establishment of new ways of operation for schools and school districts. These funds to leverage change may be needed in a one year period or perhaps for several years for any school. Part B provides such funding.

Part B is built on key concepts contained in Model Schools of Excellence (Title IV of S. 2), Education USA (H.R. 1669 and S. 1135), and the Administration's New American Schools (H.R. 2460 and S. 1141). The funding is targeted on those schools most affected by poverty and low performance. Funds would be used to create high performance schools for children in those conditions, although overall state and local plans for systemwide high performance schools would not be limited to such schools. Funds for projects would be awarded on the basis of the merit and potential of local project applications. High performance school projects would be judged on the merit of their identification of measurable goals related to the national goals to be achieved through the school, the focus on schoolwide improvement based on sound R & D, use of learning technology and staff development, community involvement in the improvement plan, and performance-based evaluation with continued support based on high performance. Program specifications follow:

- The total authorization for Part B, Establishing High Performance Schools, Part C, Teacher and School Leader Development and Part D, Learning Technology, should be $1 billion.
- Each state would receive an allocation by formula based on its allocation of Chapter 1 funds (basic and concentration grants).
- Each state desiring to participate in the program must submit an application by the state education agency, including a state plan developed in consultation with a state advisory committee which includes education experts and representatives of the governor, the state legislature, higher education, business, and labor.
- The state plan must include a description of the allocation of funds among Parts B, C, and D; how high performance schools will be selected; how the state will assure R & D results will be implemented in high performance school projects; how teacher/school leader development programs funded under Part C will be connected to high performance school projects; the criteria related to the national education goals used to evaluate progress of high performance schools and determine continuing funding; the connections between state and local programs for high performance schools and this Act; the coordination among use of funds under this Act with Chapter 1 and other federal programs; and the creation of a complete state system of high performance schools and the steps to be taken to build on creation of the first schools, equal in number at least to the number of Congressional districts plus two, to a steady increase toward 100% through the decade.

- Each state education agency in the first year would distribute 85% of its allocation on a competitive basis to LEAs or consortium of LEAs based on their applications. In the second year and thereafter, 90% would be so distributed. No less than half of the in-state allocation must be used for Professional Development Academies under Part C, and no less than 10% of the in-state allocation must be used for learning technologies in high performance schools (Part D).

- The SEA must make competitive awards to at least as many high performance schools projects as the number of Congressional districts in the state plus two. Awards of Federal Part B funds could be made to LEAs for use only in schools serving Chapter 1 students. All LEAs and schools in the state would be included in the long term state systemwide plan for high performance schools, but Federal funds under this Act would be targeted toward schools serving Chapter 1 students.

- In the first year of the program, funds allotted for statewide activity under the state education agency would be used as follows: up to 5% would be used to design the statewide plan for high performance schools and the strategy to achieve the plan; no less than 8% would be used to provide assistance to local education agencies on use of R & D findings and preparation of local plans and applications for the programs; nor more than 2% would be used to administer the programs under Parts B, C, and D.

- In the second and subsequent years of the program, funds allocated for statewide use for the state education agency would be used as follows: not less than 8% for technical assistance and build out of the state design for a system of high performing schools; not more than 2% for Administration.

Part C -- Teacher and School Leader Development.

- **Professional Development Academies.** In-service training is key to preparing teachers and administrators for changing learning and teaching in our nation's schools. Professional Development Academies established through consortia of LEAs and IHEs should be authorized as in H.R. 5932. In order to foster maximum schoolwide coordination and reform, the academies should be crafted to serve both teachers and administrators at one location rather than the establishment of separate academies as proposed by America 2000. The steady federal match of 75% provided for in H.R. 5932 should be adopted rather than declining federal investment proposed by America 2000. Other teacher programs to be established with additional targeted funding would include items from H.R. 2495.

- **National Teacher Corps**. A National Teacher Corps funded at $70 million would be established as proposed in H.R. 5932. The program should provide grants to attract highly qualified individuals to teaching and help meet the needs of states with teacher shortages.

- **Eisenhower Math and Science Teacher Training.** An additional $50 million in funding for the Eisenhower program as authorized by Title IV of S. 2 should be provided. The Eisenhower program would be amended to require that use of funds be linked to state and local high performance school plans.

- **Christa McAuliffe Teacher Fellowship Program.** The current McAuliffe program should be revamped and funded at a level of $27 million as provided for in S. 329 to create needed opportunities for accomplished teachers to expand and upgrade their professional skills and work with other teachers and school districts to improve in-service training, staff development and student achievement. The McAuliffe program would be amended to require linkage in use of those funds to state and local high performance school plans.

- **Teacher Recognition.** A $5 million teachers awards program for excellence in education as provided for in H.R. 5932 should be established in each state to provide recognition and financial rewards to teachers who meet the highest standards of excellence.

Part D -- Learning Technologies. Learning technologies would be supported by the 10% of the in-state allocation to high performance schools under Part B. The state plan for high performance schools, including use of funds under Parts B, C, and D would include a description of how learning technologies will be expanded to 100% of schools over a six-year period. In those states participating in Star Schools, the plan should also describe how the program will serve high performance schools. In addition, the increased authorization for the Star Schools program in Title IV of S. 2 should be adopted.

Part E -- Flexibility for Educational Performance. Demonstration projects are needed to test the impact of combining various Federal programs and gaining relief from regulations. This part should incorporate the provisions of H.R. 859, introduced by Congressman Goodling and based on the provisions for educational performance agreements contained in H.R. 5932 of 1990. H.R. 859 should be amended to provide state agency sign-off on local performance agreements; provision of funds to the state education agencies for technical assistance; and reimbursement for the cost to those states participating in the review of regulatory burden.

Part F -- Educational Opportunity and Options for Parents and Students. Title VI Part E of H.R. 5932 should be included to provide for demonstrations of state or local policies for open enrollment among public school programs, parent involvement programs, and improved methods to involve business and communities in public education.

Applications would be required to assure that any project assisted will not discriminate based on race, religion, color, national origin, sex, handicap, or impede the progress of desegregation. Funding should not exceed the $30 million authorization of H.R. 5932.

Title IV. Goal 5: Adult Literacy and Economic Productivity. The national literacy initiative authorized by H.R. 751 and Title III of S. 2 would become Title IV of America 21. The provisions should be modified to assure the programs are well coordinated with state adult learning programs and that consortia of LEAs are eligible to operate Even Start projects. Additional legislation designed to strengthen preparation for and retraining for employment of both youth and adults should be made part of Title IV. The legislation should place emphasis on the combination of training at the school and workplace.

Title V. Goal 6: Safe, Drug-Free Schools. Student performance is affected substantially by the quality of the school environment and the availability of comprehensive services supporting good health, and family social and economic strength. Impoverished children and youth must have coordinated education and community services. The provisions of H.R. 812 and S. 1133 for comprehensive services for children and youth, should be incorporated as Title V of America 21. The provisions should include demonstrations of the waiver provisions of the Administration's America 2000 flexibility proposal. The program should be administered by state education agencies and assure that LEAs are the lead local agencies.

Provisions of the Drug-Free Schools and Communities Act would be referenced under this title. These are currently under consideration by the Committee.

Title VI. Goal 8: Access to Postsecondary Education. Federal programs and strategies to achieve Goal 8 will be contained primarily in the Higher Education Act reauthorization. The reauthorization should include provision for Pell Grants to be made an entitlement. The provisions of S. 1135, the Student Aid Simplification Act to streamline the needs analysis for student financial aid should be adopted.

The provisions for America's Commitment to College Education and Success for All Students (the ACCESS program, S. 1134) should be included in Title VI of America 21. This program establishes early intervention programs for 6th to 8th graders and awards scholarships to disadvantaged students as incentives for postsecondary study. S. 1134 should be modified as follows:

- The eligible recipients for funds to establish or expand early intervention programs should be LEAs, not individual schools. Local education agencies are the fiscal agents for schools. Operating the program through LEAs can leverage district-wide replication and expansion of successful projects. SEAs should not administer the program to individual schools.

- The formula for distributing funds for early intervention programs to SEAs should be each state's relative share of Chapter 1. This formula best targets funds on the students in need of ACCESS and is a well-established means for distribution.

Title VII: Assessing Student Performance and Monitoring Goals. The provisions of S. 2, Title II to establish a panel to monitor progress on the national goals is included. Continuation and expansion of authority for the NAEP State-by-State Trial Assessment should also be included.

Major issues of establishing standards and procedures for nationwide assessment-- both program assessment by sampling and individual examinations-- must be addressed through Federal action. A National Board for Student Assessment as recommended by CCSSO (testimony, March 7, 1991) should be established to set the directions for a nationwide assessment system with the appropriate components of program assessment and an individual examinations system based on the same standards to be established through the Board.

Attachment 4

COUNCIL OF CHIEF STATE SCHOOL OFFICERS

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TESTIMONY ON CHILDREN'S TRUST INVESTMENT ACT OF 1991

GORDON M. AMBACH, EXECUTIVE DIRECTOR
COUNCIL OF CHIEF STATE SCHOOL OFFICERS

MAY 14, 1991

U.S. SENATE SUBCOMMITTEE ON CHILDREN, FAMILY, DRUGS & ALCOHOLISM

Mr. Chairman, members of the Subcommittee, I appreciate having the opportunity to present a statement today on behalf of the Nation's state commissioners and superintendents of education concerning the legislation you are introducing, the Children's Trust Investment Act of 1991. The bill authorizes an important strategic investment America must make in children and their education by providing a dedicated Federal tax for key children's programs, including education. We strongly support your effort to link a new revenue source directly to services for children.

You have heard other testimony as to the need for an increased Federal resource for education and children's programs. I will not repeat those points made.

I must emphasize that if we are to achieve national goals for education, we must make a greater national investment in a commitment to Federal education programs. We must serve all eligible children for Chapter 1; provide the 40% Federal share for services to handicapped children; authorize and fund a Federal program to recruit and train qualified teachers; increase and enhance the proven programs that promote educational research, assessment and replication of promising practices; undertake new initiatives to facilitate the school-to-work transition and assure access to postsecondary education without forcing students and their families to incur crunching debt burdens. An essential way to provide vital new resources for proven education programs and strategic new education initiatives is the enactment of a dedicated tax for education.

Last November our Council, for the first time, unanimously recommended the enactment of a dedicated tax for education. Legislative specifications for the dedicated revenue and the programmatic increases we propose are attached. The concept of a dedicated tax to provide funds for programs, including education, is at the heart of the Children's Trust concept. That part of the bill we support strongly.

The dedicated tax is the only way significant new resources can be directed to key Federal programs. The Budget Enforcement Act, as Gramm-Rudman-Hollings did before it, precludes increases to levels of investment needed in any domestic priorities. All programs must "pay-as-you-go" with specific new revenues, or compete in the "black box" with programs contending to be essential to our national objectives.

The new revenue should be directed to education programs. The polls show the great willingness of the American public to support taxes targeted to education. This public attitude should be used to target a new tax to education.

Although we strongly support the key element of the proposed bill -- the authorization of a dedicated tax for education -- we have serious concerns about other provisions of the bill in creating the vehicle of a "trust" and in the provisions for the use of funds raised by the dedicated tax. You have invited constructive criticism of this proposal in order that a consensus can be developed around a significant new means for Federal financing of children's services. In that spirit, we offer the following comments and recommendations:

- The proposed use of funds under the Children's Trust would provide for a substantial amount of the funding to be used at the discretion of a state for a variety of programs. This is in effect a state block grant, or revenue sharing, provision. It is included presumably in order to assure that the several programs can be coordinated and used flexibility to meet particular state needs.

We urge that the provision for block granting, or revenue sharing, under the trust be deleted. Rather, the revenues of the dedicated tax should be assigned soley for use of the specifically-authorized Federal programs to be supported by the dedicated tax and in accordance with the appropriations priorities established by the Congress and approved by the President. The argument for establishing a dedicated tax, or a new "trust," is undercut if the revenues returned to the states may be used in a block, or general, way. We believe it is extremely important for the regular processes of authorization and appropriation of funds in the Congress to prevail in the use of a dedicated tax for education. The processes can be followed by enabling the appropriations committees to control priorities for use of the tax revenues by appropriating amounts for each of the Federal programs supported by the dedicated tax and, if appropriate, other general Federal revenues.

The objective of strengthening collaboration and cooperation among Federal programs which provide services to children is better served through the use of other provisions. For example, one way is to use the proposed "flexibility" bill, such as advanced in H.R. 5932 of 1990, The Excellence and Equity in Education Act, which narrowly lost on procedural grounds in the Senate last year after passing the House unanimously. Such a bill is now being proposed for education by Congressman Goodling. Under such provisions of flexibility, the state and localities have the opportunity to merge programs designed to serve particular target population groups or individuals in a manner which provides a specific plan and design for using these funds. Through this route, the objective of collaboration is best effected within the overall Congressional priorities and to reach the children served through a variety of programs.

Another example, a statute, such as the Young Americans Act, could provide for the collaboration and merging of programs in a manner which is a more effective way to use funds under the dedicated tax than to open them up as revenue sharing or block grants. The history of conversion of programs from categorical grants, to more general grants, to block grants and revenue sharing is not encouraging with respect to increases of revenues for the states and localities. Indeed, the track record shows that the next step after revenue sharing, or block grants, is the disappearance or evaporation of the Federal support.

- The technical problems inherent in creating the proposed trust fund must be further addressed. Is it feasible to have a trust fund which: 1) mixes entitlement programs and discretionary programs; 2) includes programs under the separate jurisdication of several authorizing, appropriating, and tax-writing committees of Congress; and 3) should increase Federal funds for the programs but not become the sole source of support for them as the programs must continue to receive support also from existent general revenue.

- Finally, it is extremely important to analyze the major strategic question behind the proposal for a Children's Trust. The purpose of such a bill is to significantly increase Federal resources for the services to be provided children. The theory is that if the several programs are gathered together in a single trust and associated with a particular tax, all the programs will benefit from this central focus on a dedicated tax which will be both sufficient as a current substitute for other revenues and grow faster and stronger than other revenues in the future. The theory carries a heavy burden of proof.

One alternative approach is to place certain programs under the support of a dedicated tax separated from other programs carried as "entitlements." A strategy of using multiple structures for providing services for children, whether they be health, social services, or education, may offer a clearer possibility of increasing Federal resources for these several purposes, in the aggregate, in the long haul than does an attempt to place all programs under a single trust.

Given the complexities of including both entitlements and discretionary programs under a single trust and given the uncertainty of Congressional and Presidential will to authorize taxing provisions genuinely adequate in themselves to support the needs of the programs in the Children's Trust, multiple routes toward financing services for children seems a sound strategy. This means funding some programs through entitlements, some programs through discretionary grants; some services from general revenues, and some a dedicated tax. The use of a new, specific dedicated tax should be focused on the expansion of education programs with the result of easing the load on general revenues for education. In the long run that will best help to increase the aggregate amounts of money for all children's services from several sources.

Again, we thank you for this opportunity to express our support for your effort to generate new resources for children's programs and to offer comment and recommendations on the structure and provisions of a "trust." The proposal deserves careful and thoughtful consideration. We look foward to working with you to advocate the need for greater resources for children and to refine the means to realize them.

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May 14, 1991

CCSSO LEGISLATIVE SPECIFICATIONS FOR A DEDICATED TAX FOR EDUCATION

RATIONALE:

- **A substantial increase in the federal investment in education is needed to assure the national education goals are achieved.** The federal contribution to total education spending nationwide is only 6%. While it constitutes only a small proportion of total education spending, the federal share is key to providing educational access for students most vulnerable to school failure; improving the quality of teaching and learning; and sustaining national research, assessment, and education statistics critical to our international competitiveness. The goal of assuring a new resource and funding stream for education is not to significantly or arbitrarily raise the percentage of the federal share. The objective is to more adequately match the federal commitment to the national need and the priority role of education in our standard of living at home and strength abroad.

- **The American people support our system of free, public education and are willing to raise taxes if the new revenues are earmarked for education.** Gallup polls have shown consistently that general and widespread public opposition to raising taxes does not apply to revenues earmarked specifically for education. A recent Gallup survey showed that 63% of those polled said they would be willing to pay higher taxes for increased federal spending on education.

- **Current statutory restrictions on spending preclude the level of investment in education necessary to achieve the goals without cutting other priority domestic programs affecting children's health and welfare.** The Budget Enforcement Act of 1990 places all domestic discretionary programs, including education, under a single spending cap that only affords growth at the rate of inflation or current service levels for the next two years. The federal commitment to education must, at a minimum, double by the mid-1990's to assure the goals are achieved.

SPECIFICATIONS:

- **Enact a new tax or surtax on business or payroll dedicated to federal education, and development and training programs including Head Start.**

- **Amend the Budget Enforcement Act of 1990 to exempt the revenues raised by the tax from the provisions of "pay-as-you-go" and to provide that the discretionary program ceiling each year will increase by the amount of the revenues raised by the tax.**

- **Provide that the revenues raised by the tax each FY will be allocated automatically in the annual budget resolution to function 500 and assumed to be increases above current FY baseline levels for the specified programs (see below).**

- **Provide that the revenues raised by the tax each FY and allocated to function 500 will be transferred along with current FY baseline levels for specified programs to the Labor-HHS-Education Subcommittees of the House and Senate Appropriations Committees in the 602(a) and 602(b) process.**

- **Provide that the total amounts appropriated for the specified education programs, in the aggregate, cannot be less than the current FY baseline levels plus the total of the revenue raised by the dedicated tax.**

FUNDING NEEDED TO FULLY IMPLEMENT PROGRAMS RELATED TO GOALS:

National Goals are related to federal programs designed to achieve them in the table below. The estimate of need is based on the cost of service for all eligible students for the program, full funding of the total level authorized, or funding the percent of total program cost intended by the federal statute. In some cases, the new federal program authorized is included. The rate of revenue growth to meet the needs will be controlled by phase-in of the dedicated tax. The growth rate of the various federal programs would not need to be uniform. Target appropriation figures below are displayed for full implementation. The total education budget target should be reached no later than FY '95 to assure impact of these programs to meet the National Goals target date of 2000.

NATIONAL GOAL	FEDERAL PROGRAM	INCREASE IN ANNUAL APPROPRIATION TO MEET THE GOAL (in millions)
I. READINESS		
	Head Start	$ 5,000
	Even Start	200
	Preschool Disability Program	600
	• Chapter 1 Preschool	1,000
II & III. STUDENT ACHIEVEMENT AND GRADUATION		
	Chapter 1	$ 4,300
	Individuals with Disabilities Education	3,000
	Secondary Basic Skills and Dropout Prevention	500
	Impact Aid	1,200
	School Improvement (Chapter 2, Magnet Schs)	600
	Bilingual Education	300
	Vocational/Technical Education	500
	Educational Research and Improvement	150
IV. MATH AND SCIENCE		
	Eisenhower Math and Science Program	$ 300
	Math and Science Scholarships	100
V. LITERACY AND PRODUCTIVITY		
	Adult Education	$ 250
	Literacy Initiatives and Libraries	250
	• School and Workplace Learning Programs and Apprenticeships	5,000
IV. SAFE, DISCIPLINED, AND DRUG-FREE SCHOOLS		
	Drug-Free Schools and Communities	$ 400
	• Facilities Improvement and Hazard Abatement	5,000
VII. TEACHER RECRUITMENT AND RETENTION		
	• Teacher Training and Scholarships	$ 500
VIII. EQUAL OPPORTUNITY FOR POSTSECONDARY EDUCATION		
	Pell Grants	$ 4,600
	SEOG, Work/Study, Perkins Loans, SSIG	3,000
	TRIO, Historically Black Colleges, Graduate Education, International Education, College Libraries	1,500
ALL GOALS CATEGORIES--		
	• Comprehensive Education Improvement Through Incentives, Learning Technologies, and Improvement	$10,000
SUBTOTAL (INCREASES TO ACHIEVE GOALS)		$41,750
FY 1991 APPROPRIATION FOR EDUCATION		27,430
PROJECTED EDUCATION BUDGET FOR FY 1995		$69,180

• Not yet authorized

PREPARED STATEMENT OF HON. ROBERTS T. JONES

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to testify before you today on the recent report of the Secretary's Commission on Achieving Necessary Skills (SCANS). My remarks address why the Department of Labor established SCANS, what it has accomplished, our plans to disseminate the report, and its broader implications for schools and the workplace.

The Context of SCANS

I do not need to tell you that the United States is faced with an increasingly competitive, global economy. Our ability to maintain our competitive edge abroad and our standard of living at home increasingly depends on a workforce that is ready to meet the growing demands of a changing economy and workplace.

More than half of our young people leave school today without the skills necessary for meaningful employment. Our economy can no longer afford the resulting loss of productivity. These young people will pay an unacceptably high price for the rest of their lives--students who leave school without work readiness skills will not get jobs in our modern economy. In the past, young people without work preparation skills could count on making a decent living as they gained experience in the workplace. Today they are not likely to get jobs at all. Employers have little choice but to select the applicants who have skills over those who don't.

Our nation must do a better job of preparing students for work. If we wait much longer to turn the situation around, we run the risk of shutting out an entire generation of young people from the opportunities of the modern workplace.

The Purpose of SCANS and What It Has Accomplished

It is for these reasons that 18 months ago the Department of Labor established SCANS. It was essential to bring business, education and labor leaders together to help "close the gap" -- between the skills taught in today's schools and the skills required for the modern workplace. As the Former Secretary and SCANS Chairman has already described, the first SCANS report, What Work Requires of Schools, has defined in a very practical manner the skills and skill levels necessary for entry level work in our modern economy.

The SCANS report is an early contribution to the President's education strategy articulated in AMERICA 2000. It can put business and education on a common track to make students ready for work. It can serve as a critical resource for parents--enabling them to assure that their children leave school ready for work.

While the SCANS message has received enormous support, some critics claim we cannot ask schools to teach SCANS skills. We believe that schools--and workplaces--must provide structured opportunities for their acquisition. This is essential because the U.S. does not have a coherent and efficient system of helping young people transition from school to work. Many of our Western European competitors have successfully done what we have not--provided students ready access to alternative learning pathways, enabling them to move smoothly from school to the workplace. Basic education, according to a recent European Community report, should help students acquire many of the SCANS skills.

DOL Activities to Implement SCANS Recommendations

Secretary Martin aptly described the SCANS report as "a road map--it shows the way without dictating the route." Local communities, employers, schools, teachers and parents need to determine for themselves how the SCANS skills relate to the jobs in their areas, and how well their schools are teaching them. The hard work of the Commission means little unless its message is put to work--one community, workplace, and school at a time.

The Department of Labor's goal is to get the SCANS message out to every community, workplace and school in the country. Mr. Chairman, we are gratified with the tremendous response the SCANS report has received from the education, business and labor communities across the country. The volume of daily requests for copies of the report and information on how SCANS can be implemented in local communities is very encouraging.

We are also pleased by the success of our first-round regional SCANS briefings. Last week in Denver, for example, Secretary Martin and SCANS Commissioner Gabriel Cortina of the Los Angeles Public Schools participated in an extensive dialogue with experts in job training, representatives of every level of government, employers, parents and students on how to implement the SCANS recommendations. Secretary Martin and SCANS Commissioner Richard Rivera of TGI Friday's, Inc. engaged in a similar dialogue in Dallas on how skills can be integrated into schools, job training programs and the workplace.

Many regions and States have already launched follow-up efforts to disseminate the SCANS message in local communities. For example, in Philadelphia, the Secretary's representative and the ETA regional office are currently planning their own series of briefings in Pittsburgh, Baltimore, Norfolk, Charleston, and Richmond. The State of Iowa has already held two meetings focused on SCANS and requested copies of the SCANS report to send to every school administrator in the State.

The Department of Labor has a two-step implementation strategy for the SCANS report: We want to spread the SCANS message as widely as possible, and once that message is out, we want to help make the SCANS effort happen in local communities. We have the following activities planned to disseminate the SCANS report and its message:

- **First, we will widely distribute the SCANS report and information** to members of Congress, cabinet members, Governors, Mayors, CEO's, business and trade associations, labor unions, public interest groups, education organizations, PTA's, community organizations and others.
- **We are conducting both national and regional briefings** to inform these groups on SCANS and challenge them to test and implement SCANS skills in their local communities.
- **We are developing and disseminating "A Blueprint for Action"**--a SCANS handbook to offer practical, hands-on suggestions to local communities on how business, labor, local school systems and parents can work together to assure SCANS skills are incorporated into local schools and workplace training programs.
- **We will produce public service announcements/videos** to promote the SCANS message, particularly to high school students.

- **We are engaging the support of national business, education, and labor groups** to disseminate the report and to enlist their constituents and local counterparts in implementing SCANS at the grassroots level.

- **We have established a national SCANS Hotline** to handle requests for copies of the report and information on how to implement it. The number is 1-800-788-SKILL. There will soon be regional office SCANS hotlines as well.

- **We are developing a SCANS Resource Center** to provide materials and information on exemplary programs and appropriate research.

- **Finally, we will establish a Speaker's Bureau of experts** available for meetings and conferences.

The Department of Labor is also taking steps to put the SCANS message to work at the local level. **The Secretary has charged regional Department of Labor staff to serve as local catalysts** in the SCANS effort for their regions. These activities may include: contacting State and local officials and facilitating their cooperation in implementing SCANS recommendations; encouraging the establishment of community focus groups; participating in local, State, and regional meetings between business, education, and labor groups; and selecting model communities which exemplify the SCANS efforts.

Similar to the activities at the national level, we will also enlist the active assistance of local business, education and labor groups to mail the report and appropriate materials to their membership, and encourage constituent groups to participate as partners with DOL in making SCANS happen locally.

We are committed to implementing the SCANS report at the local level, but we don't pretend to have the final word. The ongoing work of SCANS will depend on the dedicated efforts of local communities and the feedback we receive from them.

Over the next year, we will track what happens in local communities--through State, regional or national summits--to identify the problems and successes in implementing SCANS and to determine what more needs to be done to facilitate the dialogue between schools, employers, workers, and parents in individual communities. We will showcase significant achievements with Secretarial awards and encourage business, education and labor groups to monitor the progress and involvement of their constituents in making SCANS work locally.

ETA Efforts to Implement SCANS Recommendations

The Employment and Training Administration (ETA) plans to address SCANS implementation by beginning to incorporate SCANS skills into our job training system. We want to use the SCANS skills as a means to raise the work-readiness levels of the youth and adults who participate in our job training programs.

I am charging an ETA workgroup to explore the implications of SCANS for individual job training programs and to consider options to guide the incorporation of SCANS skills into all of our training systems. These options may include: more intensive technical assistance, a possible R&D effort to test and identify exemplary SCANS curriculums and best instructional and assessment practices, and administrative actions such as incorporating SCANS skills into performance standards and monitoring activities.

What's ahead for SCANS

What Work Requires of Schools is the first report of SCANS, with its final report due in February 1992. SCANS' ongoing work over the next 7 months will:

- Examine the major issues involved in assessing and certifying SCANS skills so that employers and colleges will honor good high school performance;
- Consider the implications of SCANS findings for curriculum development, teacher training, and instructional materials and technology; and
- Contribute to the growing public-private partnership included in AMERICA 2000.

Preparing our students for the modern workplace requires cooperative and committed efforts. The Departments of Labor and Education are working--and will continue to work--very closely to improve the quality of the American workforce, including the skills of those preparing to enter the workforce. Secretaries Martin and Alexander demonstrated their commitment to work together by holding discussions about job training and education before their confirmations were completed. The Department of Education has been closely involved throughout the production of the SCANS report.

The Departments of Education and Labor have also participated jointly in other activities to help enhance workforce skills. For example, the two Departments have co-hosted a national conference on School-to-Work transition and are exchanging ideas and information on research and demonstration projects in this and other workforce training and education areas. The two Departments co-chair an Interagency Task Force on Literacy established by the Domestic Policy Council to coordinate Federal literacy programs and to recommend ways to improve the effectiveness of these programs. We jointly fund, with the Department of Health and Human Services, a Center on Adult Literacy to examine issues and effective designs for adult literacy programs and disseminate information on what works. The two Departments will continue working together to address important workforce training and education issues, including implementing the SCANS report.

The Department of Labor has launched several other important initiatives that build on the SCANS foundation to improve the skills of the American workforce:

- Six **School to Work Demonstration projects** are testing ways to restructure high school curricula and link structured learning with the workplace, making learning more relevant to the interests of many students and more rigorous than many existing programs.
- The Department of Labor's **National Advisory Commission on Work-Based Learning** is charged with exploring the development of a voluntary private sector strategy for setting world class, job-related standards in selected industries. It's work builds on the "core" SCANS skills.

In closing, I reiterate that the hard work of making the SCANS recommendations happen will not be done in Washington but in schools, workplaces and communities across the country. By now, Mr. Chairman, you and your colleagues in the House and Senate should have received from Secretary Martin a copy of the SCANS report and its accompanying information. In her letter, she asks your assistance in spreading the SCANS message at the grassroots level. I urge you and your staff to participate in the additional SCANS briefings planned for congressional members. We at the Department of Labor are available to answer any questions that you or your constituents may have and look forward to working with you in the months ahead to make SCANS work in every local community.

Mr. Chairman, this concludes my prepared statement. At this time, I would be happy to answer any questions that you or other members of the Committee may have.

PREPARED STATEMENT OF WILLIAM E. BROCK

Mr. Chairman and members of the Committee:

I appreciate the invitation to participate in this hearing and discuss a very important issue. I have long held a deep and abiding concern about the need to improve the quality of American schools in order to prepare our young people for the realities of work. My experiences as Secretary of Labor and U.S. Trade Representative, in particular, impressed upon me that our nation's economic future and international competitiveness depends on improving the country's education system.

Early this month, Secretary of Labor Lynn Martin and I released the report of the Secretary's Commission on Achieving Necessary Skills (SCANS), called "What Work Requires of Schools: A SCANS Report for America 2000." This morning, as the Chairman of SCANS, I would like to share with you some of our findings and recommendations, as well as some of my personal thoughts about the education crisis in this country.

The SCANS report said that:

"More than half of our young people leave school without the knowledge or foundation required to find and hold a good job.

Unless all of us work to turn this situation around, these young people, and those who employ them, will pay a very high price. Low skills lead to low wages and low profits. Many of these youth will never be able to earn a decent living. And, in the long run, this will damage severely the quality of life everyone hopes to enjoy."

Today our nation faces several choices. We can choose between faster and slower economic and productivity growth. We can choose between high-skill, high-wage jobs and low-skill and low-wage jobs. And we can choose between a restructured education system and the one we have had for most of the 20th century.

These are the choices outlined last summer in the report of the Commission on the Skills of the American Workforce, which I co-Chair. Higher productivity and faster economic growth means higher-skilled, better-paying jobs. But to move down the path of higher productivity, we must make some very fundamental changes in our classrooms and workplaces. Both schools and businesses simply must do a better job.

The choices are linked. We must restructure learning so more is learned each year. We must create higher-skilled jobs so more is produced and earned each year. Making the right choices about our schools and workplaces will lead to faster economic growth and, as you know, lower budget deficits.

A little more than four years ago, as Secretary of Labor, I commissioned the study Workforce 2000. That report outlined three scenarios for the U.S. economy for the years 1985 to 2000. The base scenario estimated that the economy would grow by an average of 2.9 percent annually over the 15 years. The low-growth scenario had the economy growing only 1.6% a year.

The difference between the two is only slightly more than one percent. But, by the year 2000, one percent can make a big difference. A low growth economy instead of a moderate growth economy means about nine million fewer jobs, 12.5 percent lower productivity, and 17.5 percent lower per capita disposable income.

I don't need to explain to this Committee the significance of a one percent difference in GNP for the federal budget. According to the Congressional Budget Office (CBO), a one percentage point higher rate of real economic growth, beginning in January of this year, would reduce the 1992 deficit by $26 billion, the 1993 deficit by $48 billion, and the 1996 deficit by $134 billion.

Clearly, the nation would prefer the base scenario to the low-growth scenario. Indeed, we all would like to see the high-growth scenario. But I haven't even discussed that scenario because, due to our economic performance since 1988, the high-growth path simply is no longer possible.

Which path have we chosen since 1988? Based on today's data, we are choosing something closer to the low-growth, rather than the base case. We are choosing a low-growth, low-wage, low-skills path. We will continue down that road unless we make some fundamental changes in work and schools.

Today the way schools prepare young people for work and the way most workplaces are organised don't reflect the globalisation of the economy and the rapid growth in technology. Students don't understand how what they learn in math and English classes, for instance, relates to the realities of work. And, perhaps more importantly, they aren't being taught many of the things they need to know to pursue good, rewarding careers.

These same students might respond by saying that their schools aren't teaching relevant skills and employers aren't offering jobs that require much thinking and skill. There is more than a grain of truth to this.

By our failure to change how and what our schools teach, by our failure to change the way our businesses use the skills and resourcefulness of workers, we have put our country on a downward path. In a very real sense, we are failing our children and short-changing their future and ours.

That brings me back to the SCANS report. Before we identified the skills young people need to possess to be productive and adaptable workers in today's economy, we looked at the ideal work setting in which they would be put to work. The qualities of high performance that today characterize leading-edge companies must become the standard for the vast majority of our companies, large and small, local and global.

By high performance, we mean work settings relentlessly committed to excellence, product quality, and customer satisfaction. These goals can be pursued by, among other things, moving decisions closer to the front lines and drawing more fully on the abilities of all workers. It means quality built in, not end-of-the-line quality control. And it means treating the workforce as an investment, not a cost.

So what are the skills needed in a high performance workplace? First SCANS identified what we call a three-part "foundation." These are the essential skills and qualities upon which more complex "competencies" can be built.

The "foundation" skills include the basics -- the 3Rs, but also skills such as listening and speaking. The "foundation" also includes such thinking skills as creativity, decision making, and problem solving. And finally they include such important personal qualities as individual responsibility and integrity.

We then build five competencies on the foundation. These include the ability to allocate resources, work with others, use information, work with systems, and use technology. (A more compete description of the foundation and competencies is attached to my testimony.)

As our report says, "These eight areas represent essential preparation for all students, both those going directly to work and those planning further education. All eight must be an integral part of every young person's school life."

"What Work Requires of Schools" is our initial report, not this Commission's final word. But it outlines many of the practical steps we need to take to reach the National Education Goals. It contributes to all four parts of President Bush's education strategy, AMERICA 2000. Our work is not over and we hope it will help launch a vigorous national debate.

In the coming months, SCANS will try to define what it will take for schools to turn out SCANS scholars -- students who are work ready. We will be exploring many issues relating to this change, some of them quite controversial. We will consider how a national system of student assessment could support the teaching of the SCANS skills. We will explore whether a system of skills certificates can be developed to renew the dignity of the high school diploma and give it real meaning as a mark of competence. And we will consider what changes in curriculum, instructional materials, school organization, and teacher training may be needed to foster the teaching of the SCANS skills.

We hope we can create this change without substantially increasing the cost of education. There are reasons to be optimistic on that score. Some businesses, such as IBM and Motorola, have found that doing the right thing is not necessarily more costly. Quality is cost-effective. But, frankly, it is too early to tell whether teaching the SCANS competencies to all students will require more resources.

Part of the President's AMERICA 2000 program is to produce "break-the-mold" schools. Those schools are going to be bold new experiments, but they are also intended to explore ways to improve the cost-effectiveness of the learning process, something we sorely need. Perhaps we will need to see the results of that effort before we can make an honest assessment of what resources we will need to produce SCANS scholars.

As I said at the beginning of my remarks, today we have a choice. But, obviously, a nation does not choose a high-growth, high-skill, high-wage, restructured-education future overnight. We do not make economic choices of that magnitude and complexity in one decision-making event. Instead, the choice is the result of millions of choices by all of us -- teachers, parents, employers, students, workers, and lawmakers.

To help everyone understand the importance of this choice, we must fully explain a few fundamentals. We must explain that all front-line workers are our most important competitive assets. We must tell educators how to prepare American youth for the world of work as well as the world of higher education. Ask any teacher what students need to learn to get into college and they can tell you, but if you ask them what students need to know to get a good job most have no idea. And we must reiterate over and over again that there is dignity and opportunity in both career paths.

It is our hope that the SCANS report will help Americans make the right choice and put us on the path toward a higher standard of living for all our people.

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PREPARED STATEMENT OF NANCY COOLIDGE

Good morning. I am Nancy Coolidge, Principal Administrative Analyst--Student Financial Support, at the Office of the President of the University of California. The Office of the President is the systemwide administration for the University, which comprises 9 campuses and enrolls 160,000 students. On behalf of the University, I thank you for providing me this opportunity to address you on topics related to student financial support and the reauthorization of the Higher Education Act of 1965.

This morning I want to focus on a number of student support issues that are of particular importance to the University: the affordability of postsecondary education for low- and middle-income students, the cost to institutions of administering student support programs, and student support for graduate students. All of these issues are of concern not only to the University of California, but also to colleges and universities across the country; they merit, therefore, Congressional focus during the deliberations about the Higher Education Act.

The University's needy undergraduates rely on Federal financial aid for access to a University education, and grant support for the neediest students is the cornerstone of this opportunity. The preservation of the grant programs and a restoration of the purchasing power of the Pell Grant, therefore, must be essential tasks for the upcoming reauthorization and subsequent appropriations.

With that as an introduction, I want to turn to a discussion of the University's growing concern about those individuals who do not quite qualify for need-based Federal financial aid and who are finding it increasingly difficult to finance a postsecondary education for themselves or their children. Since the Federal need analysis formula, known in the field as Congressional Methodology, applies standard assumptions about living costs to aid applicants and their families wherever they may live, students in California and other high-cost states are disadvantaged in establishing their need for financial aid to help meet the costs of attending a college or university. Congressional Methodology recognizes differences in income, but does not place much emphasis on differences in the cost of living. A family of four living on a $40,000 income in San Francisco is not likely to be able to contribute as much toward college costs as a family of four living on the same income in a lower-cost city.

In California, we are hearing more and more from families that are considered "middle-income" by Federal standards, but who, after trimming their spending, reducing their standard of living, and taking out loans, can barely meet the cost of education at their own state's public universities. The lower-middle income families that are just over the financial aid eligibility threshold are particularly hard-pressed: they have few or no assets to draw upon to lever cash or credit to pay for college. Among lower-income students already enrolled at the University, most are working and many are borrowing, but they feel the need for additional support to help reduce the financial pressure they are under. Among those who are looking to the future and attempting to gauge whether they can send their children to UC, many are frustrated to learn that they are not officially "needy," when they are well aware that they are unable to produce the $11,000 or so per year that it costs for a California resident to attend the University of California. We all need to be concerned that this gap between costs and resources may be affecting college choice across the country for families and their children. There is more and more discussion of the fact that students are "down-sizing" their dreams--dreams of attending the college most suited to their academic, career, and personal goals--because they just can't afford it.

As you may be aware, California will not be able to maintain its own current level of support for postsecondary education during this new fiscal year. As part of an overall plan to deal with the significant reductions in the State's budget for the University, we have raised resident student fees by $650. This increase will exacerbate the problems of families who are just above the cutoff for need-based aid. The University has created a separate, new financial aid program in order to cover the cost of this fee increase for all needy students. This program provides a combination of grant and loan support to students, and the amount of each type of award depends on the adjusted income of the student and his or her parents. A needy student whose parents have an adjusted gross income of less than $30,000 will have the entire fee increase covered by grant. Needy students whose family incomes are above $30,000 will receive a combination of grant and loan, with needy students at the highest income levels ($60,000 and above) receiving a $300 grant and a $350 loan.

Although the University is attempting to protect its needy students from the impact of higher fees, we cannot insulate them from higher living costs, which draw more heavily on their resources than fees do, by far. As demonstrated by the structure of our new fee grant program, we concentrate our institutional grant resources on the poorest students. Students with somewhat higher (but not high) incomes receive a combination of grant and subsidized loan. In response to our growing concern about moderate- and middle-income students and families, we are exploring the possibility of establishing a minimally subsidized loan program that would provide another source of funds for students and parents who do not qualify for need-based grants and subsidized loans under Congressional Methodology.

An essential aspect of the task that faces Congress in the upcoming reauthorization of the Higher Education Act is the renewal of a national and a Federal investment in an educated populace. Part of this investment must include the provision of additional resources to provide some level of subsidy to ensure that these moderate-income students I have been speaking about are not squeezed out of postsecondary education. For example, the current proposal to limit Pell Grants to students and families with incomes of less than $10,000 goes too far--many very needy students will be excluded from postsecondary education if this suggestion is adopted. In addition, as current legislative proposals suggest, more needs to be done for the moderate- and middle-income family. I would suggest, therefore, that Congress take this reauthorization opportunity to spread the Federal subsidy more broadly by establishing a sliding scale that would target the greatest subsidy to the poorest students, while maintaining some level of subsidized support for a greatly increased range of students and families.

I want to turn now to another side of financial aid--the campus side. The University of California spends $22 million annually on the administrative services directly related to the delivery and maintenance of financial aid and the collection of campus-based loans. The Federal government provides less than 10% of this amount through various administrative allowances, while Federal aid represents 55% ($214 million) of the $386 million in grants, loans, work-study, scholarships, and fellowships that UC students receive.

While Federal aid is integral to the University's ability to admit and support the students we need to accomplish our mission, we cannot afford to take on more of the administrative burden than we are already bearing. In its deliberations about the savings that might be realized by a shift from guaranteed student loans to direct loans, we ask that Congress keep in mind the shifts in workload that would result. The lenders, who currently bear much of the Guaranteed Student Loan workload and are compensated for it by the special allowance payments, would be transferring many of their operational responsibilities to the colleges and universities, which are already stretched to the limit in terms of administrative resources.

The issue of administrative burden concerns the University in all aspects of financial aid, not just in discussions about the direct lending proposal. The laws and regulations designed to address student loan defaults, fraud, and abuse are having a positive impact on institutions that have been taking undue advantage of the Title IV programs. These laws and regulations, however, are applied broadly to all participating institutions, regardless of their administrative performance, the nature of their student body, or the nature of their academic program. Institutions across the country, the University of California among them, contend that many of the administrative requirements are inappropriate to their students, do not yield any increase in accuracy or any decrease in default, delay service, and therefore constitute a waste of valuable staff time and institutional resources. As part of another reauthorization project, the University recently developed a proposal for a solution to this problem through an administrative rating system for institutions that would establish a correlation between quality performance criteria and relief from administrative burden. A copy of this proposal is attached for your consideration.

The final topic I want to bring before you this morning concerns an area of student support that does not receive as much press as Pell Grants and Guaranteed Loans, but that is nonetheless extremely important to the University and to the country as a whole: the support of graduate students in general and doctoral students in particular. The University of California plays a key role in the education of doctoral students for the nation and beyond. The vitality of our national economy and our ability to compete in the worldwide marketplace are inextricably tied to continued excellence in graduate education at UC and at colleges and universities across the United States. Moreover, the United States is on the brink of a real, predictable, and potentially damaging shortage of college and university faculty. This faculty shortage will affect education and research at all levels--it will be felt in community colleges, private colleges, and in universities; it will affect the education and training of the nation's elementary and secondary teachers; it will affect the technology transfer between and among universities and the private sector.

This massive turnover in faculty, however, presents the nation with the opportunity to diversify the faculty--provided we can recruit and retain outstanding students from all backgrounds. Graduate student support is a vital underpinning of this effort. Although much of graduate student support is provided by institutions themselves and by Federal research grants, I want to emphasize to you the importance that the Higher Education Act plays in affirming Congressional interest in the development of a diverse future faculty. In addition, the Higher Education Act authorizes Federal programs that support graduate education in the fine arts, the social sciences, the humanities, and in foreign language and area studies. Although the Ph.D. shortage in the biological, physical, and computer sciences has been well documented recently, the faculty shortage in the arts, humanities, and social sciences will be just as severe and harmful. A revitalization of the Federal commitment in graduate education in these fields, through an increased investment in fellowships, training grants, and research assistantships, is crucial to the academic vitality and the diversity of our national professoriate.

Thank you once again for giving me the opportunity to present the University's views on these vital issues. I will be glad to answer any questions you may have.

University of California July 19, 1991

DISCUSSION DRAFT: CORRELATION BETWEEN ADMINISTRATIVE QUALITY AND REGULATORY RELIEF

RANKING	MINIMUM QUALITY CRITERIA	GENERAL QUALITY CRITERIA	ADMINISTRATIVE REQUIREMENTS TO BE WAIVED OR MODIFIED
AAA	Minimum for category: 1) Stafford cohort default rate of less than 12.5% 2) no more than 65% of total enrollment on need-based Federal aid 3) absence of LS&T activity against the institution by ED, currently or within preceding 5 years 4) meets at least 5 of the criteria listed in "General Quality Criteria" 5) 5 consecutive years of participation in Title IV programs	1) Participates in 2 of the 3 campus-based programs 2) Admits less than 2.5% of undergraduates by ability-to-benefit 3) Receives at least $1M in Federal research funding awarded by competitive peer review and audited under OMB Circular A-133 4) Has institutionally funded student support programs that equal at least 5% of the average total amount awarded at the institution in Title IV aid over the preceding 3 years (excluding SLS & PLUS and including any overmatch contributed to campus-based programs) 5) Participates in ED's Quality Control Project 6) Has not had findings in the preceding two external SFA audits that resulted in paybacks totalling more than 2% of Title IV disbursements for the audit year in question 7) Offers less than 15% of its curriculum on a clock-hour basis	Waived: 1) 30-day delay in disbursement of Stafford Loans for first-time UG borrowers 2) specific requirements regarding entrance and exit interviews for Stafford and Perkins borrowers 3) multiple disbursements in Stafford Loan Program 4) collection of the Financial Aid Transcript 5) collection of student signature on the Pell Student Aid Report (SAR) Modified: 1) quadriennial instead of biennial SFA external audits 2) smaller audit sample 3) reduce verification requirements 4) professional judgment: permit its application to categories of students
AA	Minimum for category: 1) Stafford cohort default rate of less than 17.5% 2) no more than 75% of total enrollment on need-based Federal aid 3) absence of LS&T activity against the institution by ED, currently or in preceding 5 years 4) at least 3 of the criteria listed in "General Quality Criteria" 5) 3 consecutive years of participation in Title IV programs		Waived: 1) 30-day delay in disbursement of Stafford Loans for first-time UG borrowers 2) specific requirements regarding entrance and exit interviews for Stafford and Perkins borrowers 3) multiple disbursements in Stafford Loan Program 4) collection of the Financial Aid Transcript 5) collection of student signature on the Pell Student Aid Report (SAR) Modified: 1) professional judgment: permit its application to categories of students
A	All other institutions that meet basic Federal standards for participation in Title IV programs		No waiver or modification of administrative requirements.

PREPARED STATEMENT OF D. BRUCE JOHNSTONE

My name is D. Bruce Johnstone. I am Chancellor of the State University of New York (SUNY), a public university system enrolling last year more than 400,000 students in 29 fully State-operated campuses, 30 locally-sponsored community colleges, and five statutory colleges operated by the private universities of Cornell (also New York's Land Grant University) and Alfred.

Of SUNY students last year:

- approximately 91,000 received Pell Grants totaling some $80 million;
- some 17,750 received a direct Perkins Loan, averaging $1,045, and some 55,000 received Stafford Loans, averaging $2,018, for some $129.5 million in total student borrowing.

Thus, I come before you in part as the chief executive officer of the nation's largest university system, whose students depend on federal student financial assistance -- mainly Title IV grants, loans, and work study -- for access to higher education and access, thus, to a fuller and more productive life for themselves, their families, and their society. The American insistence on higher educational opportunity for all regardless of the financial circumstances of the students or their parents relies on a partnership, building on federal student financial assistance, but depending as well on generally affordable public tuitions (which in SUNY, at $2,150 for in-state undergraduates, is still about 60 percent above last year's tuition), state tuition assistance, and a host of programs for academic support and career and personal counseling.

I come to you, as well, as an economist of higher education, who has been studying, writing, and lecturing about student financial aid -- and especially about student loans -- for nearly 20 years. I have written the only book ever published on the income-contingent loan concept, and I am one of a handful of scholars and policy analysts who have studied financial aid and student loans from an international comparative perspective and who find useful insights from knowing how students and parents contribute to the costs of higher education in other countries.

I have been asked today to comment on the so-called "direct loan" concept, by which student loans would be made available to students directly by colleges and universities, in a manner more similar to the current Perkins Loan Program, with dollars somehow made available by the federal government, rather than being made available by banks and other commercial lenders with repayment guaranteed by the federal government, as in today's Stafford Loan Program.

The essential question, I believe, is whether the Congressional goal of federally-sponsored student lending -- that is, making dollars available to students, equitably and without "risk rating," in order to make higher education more accessible at a cost to the taxpayer substantially less than would be incurred in an equivalent dollar program of straight grants -- can be achieved either at even less cost to the taxpayer or at more convenience to the student, or both, without relying on commercial banks and other private retail lenders to originate the loans and to make the original capital provision? My simple answer to what is, in fact, an enormously complex question is, "Yes, there are inherent advantages to direct lending." But my answer applies to a generic concept, not necessarily to any specific form of direct lending. And my "Yes," while offered with some conviction and consistency -- I have been advocating and writing about direct lending since the mid-70s -- does not carry any grand claims of huge savings or other major benefits sometimes projected by those who seek to "reform" our student loan programs. The essential, generic differences between direct lending, with loan origination by the colleges and universities, and the current scheme of commercial bank origination, are relatively minor, albeit sufficient in my judgment to warrant at least a serious demonstration of the efficacy of the direct student loan concept. But it is important to not confuse the essential generic differences between the two concepts with certain non-essential particularities of the two current examples of these concepts that spring most readily to mind: the Stafford, or Guaranteed Student Loan Program, and the Perkins, or National Direct Student Loan Program.

For example, the lower interest rate on Perkins Loans -- 5 percent as opposed to 8 percent (10 percent after four repayment years) for Stafford Loans -- obviously lowers the real ultimate cost to the student borrower and, all else being equal, presumably raises the cost to the taxpayer. But the interest rate differential has nothing to do with the "directness" or "indirectness" of the borrowing; the two student interest rates could be conformed by the Congress tomorrow, or even reversed, should it somehow make sense to enough members of Congress to make Perkins Loans less advantageous to the borrower, in terms of real simple interest, than Stafford Loans.

Similarly, differences in default rates that may be associated with the two loan programs at various times in their histories are a function not of how the loans were originated and the capital supplied, but of how they were serviced and collected, and of differences in economic and demographic characteristics between the Perkins and Stafford borrowing populations. Either type of loan could, in theory, have been sold or warehoused, or the servicing function contracted out at the time that repayments were to begin, and either could thus have had conscientious or less-than-adequate collection efforts. And either program could, in theory, have been made available equally to middle-income or high-need students or to students at proprietary vocational schools or to students with high or modest future earning prospects and, thus, with high or low propensity to default.

Finally, the higher on-budget costs that used to be associated with direct lending, in which the new dollars to be lent were treated as a direct budget expenditure with no offset reflecting future collections -- in contrast to guaranteed private bank lending, for which the principal government expense, aside from whatever subsidies were offered, was an unbudgeted contingent liability of some volume of future defaults -- is no longer an issue. The credit reform provisions of the 1990 Budget Reconciliation Act has eliminated these essentially accounting distinctions and now require current budgetary recognition of the discounted present value of all estimated future ultimate taxpayer liabilities, whether for defaults, interest subsidies to borrowers, or interest supplements to lenders. Thus, loan programs that have similar interest costs to the student borrower, similar costs of funds in the nation's capital markets, similar default expectations, and similar costs of administration should appear similarly in the federal budget.

In short, I do not believe that direct loans need be significantly more or less costly to the federal taxpayer, and they need not look, either at the time of origination or at the beginning of repayments, substantially different to the student borrower.

In a similar vein, I would caution that a wholesale change from guaranteed to direct lending -- or from the Stafford concept to the Perkins concept -- will not by itself reform a "broken system," for the important reason that I do not believe our current system to be fundamentally broken to begin with. Our Title IV student assistance programs, jerry-rigged as they may seem and unlikely as it is that such a system would emerge were we to have the fantasy luxury of designing a financial aid system from scratch with no history and no existing institutions, nevertheless works remarkably well. That we have, by some estimates, too much student borrowing is because there has not been made available sufficient grant funds. That we have high defaults on the part of borrowers who were high risk as students, and perhaps equally high risk as borrowers, is because we have made an explicit (and I believe correct) decision to make student loans equally available to all who are able to find a college or university to take them, regardless of their or their parents' credit history or their academic aptitudes or their objective, statistical likelihood of being "responsible borrowers." That we have high defaults among students who drop out of short-term vocational programs, many of which are offered by proprietary schools, is because we (actually, you, as the Congress) have chosen to include such schools and such students in the federally-guaranteed loan program -- and for reasons that are easily justifiable.

In short, the features of our student aid system are as they are for a combination of reasons, both positive (for example, our insistence that loans be made equally available to students without risk rating or the need for co-signatures) and negative (for example, our need to rely more heavily on loans as opposed to grants for reason of the sheer unavailability, or so it would seem, of sufficient federal Pell Grant funds to lessen the need for such heavy undergraduate borrowing). These features can be changed when the Congress cares enough to change them either for an all direct loan system, an all guaranteed loan system, or something like the current mix of guaranteed and direct, Stafford and Perkins, loan programs.

I have dwelt at some length on caveats: on problems and features of student loans that tend too quickly to occupy our attention and that are used often to argue either for or against direct or guaranteed loans, but that are not, in fact, generic features of either approach to the provision of loans for students. What, then, is direct student lending generically, and what advantages does it hold over its generic competition, commercially-provided loans guaranteed by the federal government?

I must begin my answer by asking the reader or listener to stop conceiving of "student lending" as a single act or single process performed by a single agent (e.g., a bank as in the case of a Stafford guaranteed loan or a college as in the case of a Perkins direct loan), and instead to conceive of student lending as a complex process involving five quite distinct functions, performed in turn by various combinations of quite distinct agents. The functions and their possible agents are:

1. Origination of Loan. A decision must be made that a particular student will get a particular loan in accord with all relevant laws and regulations.

   Possible Agents in Student Loan Origination: For commercially-originated guaranteed loans, the decision process is shared between the bank and the college or university at which the student is enrolling. The bank technically decides whether to loan or not, and the amount to be lent; but it is very constrained by regulations prohibiting "risk-rating," by laws and regulations that establish the rates and terms of the loan, by the requirement of a determination of "need," which is also prescribed by law and regulation. But the college or university is also a part of origination, as it must certify attendance, financial need, and satisfactory progress toward the degree. For direct lending, the college or university alone (often along with an outside "need analysis" system like the College Scholarship Service of The College Board, or the American College Testing Program) establishes the amount to be lent to a particular student at a particular time in conformance with applicable laws and regulations.

2. Bearing the Risk of Default. The essence of lending is assessing and bearing the risk of getting repaid (or not) and putting a price on the loan -- i.e., an interest rate -- that covers the cost of money and administering the loan plus a premium to cover, over a large volume of loans, the risk of default. The risk of default in any student loan program that is available to all students without regard to collateral, future earning prospects, co-signatories, or other assessments of risk, is very high.

   Possible Agents in Risk Bearing: Only the government (ultimately, of course, the taxpayer) can bear the default risk of student lending on the "equal loan availability" terms upon which the Congress has insisted. Commercial banks, the main institutional expertise of which is presumably the assessment of risk and the provision of loans accordingly, cannot, do not, and should not bear risk in student lending. (The risks of liquidity associated with holding relatively long-term, fixed-interest assets, balanced by short-term fluctuating deposit liabilities, is currently also borne by the taxpayer in the Stafford Loan Program through the interest supplement, which pays to the bank the difference between the amount actually earned on the loan portfolio through the fixed student interest payments, and a variable rate of return pegged to the rate on government paper and thus to the current real cost of funds.)

3. Providing Loan Capital. Funds must be provided to the borrower.

   Possible Agents in the Provision of Loan Capital: It is often assumed that commercial banks are needed because they have the money, and because the principal function of student lending, after all, is providing money to student borrowers. But actually, once the element of risk is removed by the government guarantee and the assurance even of a variable rate of return to cover any fluctuations in the cost of money, the provision of funds is the least of the problem. Anyone or any institution can get money from any savings source under such terms. In fact, commercial bank student lenders do not even have to provide capital, except momentarily, if they choose to sell or warehouse the loans to a secondary market such as the Student Loan Marketing Association (SALLIE MAE). Arguably, there is a single capital source dominated by the huge holders of savings -- pension funds, trust funds, foreign holders of United States dollars, etc. -- and the $12 billion or so of new student loans each year must ultimately tap into this source, whether through commercial banks, SALLIE MAE, or the federal government's own borrowing. In short, commercial banks may be a significant source of student loan capital, but they do not have to be.

4. Subsidizing the Rate of Interest Paid by the Student Borrowers. All student loans in all nations that use them are subsidized to some degree (United States student loans are actually among the least subsidized), if we conceive of the subsidy as that amount of effective interest, in excess of what is paid by the student, that is needed to cover all of the costs associated with the administration of the programs, the expense of covering defaults, and the cost of the money itself. There is a rate that seems unsubsidized, a rate roughly equivalent to a prime commercial borrowing rate, at which point there should be little or no incentive to student or parent to borrow excessively and, therefore, little or no need to ration the available dollars or to worry about "need." For a variety of reasons, student loans probably need to continue to be made available at interest rates to the student that carry some degree of real subsidy, although some would argue that the subsidy should be low enough (i.e., the interest rate to the student borrower high enough) to reduce or even to eliminate the necessity of need-based rationing.

   Possible Agents in Subsidizing Student Loans: The government (or "taxpayer"), either federal or state, is the only possible substantial bearer of the cost of student loan subsidies.

5. Servicing Loans in Repayment. Someone or something must handle billing, collection, and the administration of the loan in repayment.

   Possible Agents in Servicing Loans: Banks, of course, most often service their loans. But a bank can also service a loan after it ceases, strictly speaking, to own the loan by continuing to process repayments on the loan after it has been sold or warehoused (i.e., used to collateralize a loan) to a secondary market. Or, a bank (or any other lender) could retain ownership of the loan note, with or without attendant risk, and purchase servicing from an entity with a large computer and an efficient back office processing capability.

Seen in this light -- of the different functions and possible agents in the process of student lending -- the question of direct lending by colleges and universities, as opposed to guaranteed lending by commercial banks, is reduced to the important but by no means overwhelming issue of which agent or agents to involve in the origination of student loans. In any case, with any conceivable system of student loan programs and student loan agents, as long as student loans are going to be made essentially equally available to all students at somewhat subsidized rates of interest and in large aggregate amounts ($12-15 billion annually):

- the risk of default must be borne by the government;
- the provision of subsidies, if any, to the student borrower must be borne by the government, with state governments and institutions possibly adding additional subsidies to certain student borrowers in certain circumstances;
- the servicing of loans in repayment can be done either by banks or by specialized loan servicing entities able efficiently to process and to collect;
- the necessary student loan capital, in the amount of $12-15 billion a year, must draw ultimately on large primary capital sources like pension and trust funds, although banks can play a role either as lenders themselves or in buying the notes of a secondary market like SALLIE MAE; and

- the origination of loans ought to be in the hands mainly of the colleges and universities, which must process the need analysis forms, certify financial need and attendance, and package most other sources of student financial assistance anyway. There would seem to be no particular advantage to involving commercial banks in this function, which they cannot do completely anyway, and over which they have, by law and regulation, so little latitude.

Thus, the simple and rational student loan program, were we to be beginning anew (which of course we are not) would be for the student to apply to the college or university for financial aid, including a component that could be a loan, which loan would be guaranteed and (slightly) subsidized by the government, and available and repayable on rates and terms as prescribed by law and regulation. Eligible colleges and universities would thus originate the loans, up to an amount that the National Student Loan Bank (which would look a lot like SALLIE MAE) had agreed to purchase. (Institutional cash flow needs could lead the National Student Loan Bank to advance colleges and universities up to, say, 80 percent of anticipated loan volume for a short period of time.) The National Student Loan Bank would service all loans. It would get its capital through the nation's primary capital sources by collateralizing its assets of federally-guaranteed and federally-subsidized student loan notes. A few colleges and universities might prefer to do their own collections, but they would have to bear some "due diligence" risk in order to be allowed to do so. Some substantial part of the capitalization and the servicing could be contracted directly to qualified state agencies, or even under bid to wholly private secondary market/loan service agencies. Commercial banks would have no role in loan origination, but could perform loan servicing under contract or could provide loan capital either through purchase of the paper of the National Student Loan Bank or through competing as a secondary market/loan service agency.

Maybe, in addition, the IRS or Social Security could be brought in to help collect. Maybe, the interest subsidy should be lowered -- or perhaps be raised. Possibly, repayments should all be graduated upwards over time, to conform at least slightly with the expected growth in earnings and thus with presumed ability to repay. Perhaps, some income contingent protection should be built in to assure borrowers that repayments will never exceed some maximum percentage of their earnings and so that some ultimate repayment subsidization could be based on the (low) future income of borrowers during their repayment lifetimes, rather than, or in addition to, the (low) income of their parents at the time they had to borrow. And perhaps, access to student loans should be restricted for first-time students, or students in short-term vocational programs, or in other situations deemed to be high default risk.

But none of these reforms or refinements has anything to do generically with the question that was the requested focus of my testimony: namely, should some or all student lending move from being originated overwhelmingly by commercial banks to being originated by the colleges and universities themselves. And to that question, my answer is "Yes," because it is a more effective, and ultimately I believe a more efficient, use of the professional personnel and apparatus of our institutional offices of financial aid, and would move the federally-sponsored student loan program away from commercial bank origination and servicing, where it has never resided in complete comfort.

Granted that we are not beginning the student financial aid world anew, is there any way to experiment with the direct loan concept without dismantling the existing network of commercial bank participants and state guarantee agencies? Of course. The model is not the Perkins Loan Program, but the old Federally Insured Student Loan Program (FISL), which allowed qualified institutions of higher education to act as lenders. What was missing at the time of FISL was a fully-functioning SALLIE MAE to provide the originating institutions with the capital and the servicing capability. Now that SALLIE MAE is able to perform these functions, I would propose a program allowing a substantial number of institutions of different characteristics (so that a real experiment might be conducted) to do all of their own guaranteed student lending directly, with capital advances and purchase commitments from SALLIE MAE. I would even suggest that the participating institutions be required to discontinue the making of any new Perkins Loans.

Would such a proposal, even if fully implemented, drastically alter student lending? No, although I believe it would greatly simplify the process to both the student borrower and the institutional financial aid offices. Does my proposal suggest that the banks are currently doing a disservice to the students or to the taxpayers by originating and servicing student loans? I believe not; in fact, the banks that participate today have gotten quite good at the business of making and servicing student loans, and have become quite user friendly. Would there be a role in this process for state guarantee agencies? Yes; in fact, neither the Federal Office of Education nor SALLIE MAE could do the work without the personnel and processes at least of the large and successful state agencies. Would such a plan provide great savings to the federal taxpayer? I think not, because the major cost of student lending is still interest subsidies and defaults, which will not necessarily change. The net cost of funds may be a bit lower.

But in the end, should direct lending be pursued? Yes, because it is, done right, a more sensible structure, and will make the way clearer and easier to the consideration of many of the other possible refinements and reforms to which I have alluded in this testimony. Kept to its basic, generic elements, direct student lending makes sense, and this period, when reauthorization is in the air, is the time to begin.

FUNCTIONS AND AGENTS IN THE PROCESS OF GOVERNMENTALLY-SPONSORED LENDING TO STUDENTS

Functions / Agents	Originating Loans to Students	Bearing Risk		Subsidizing Effective Cost to Borrower	Providing Capital	Servicing and Collecting	Notes
		...of Defaults	of Rising ...Cost of Funds				
Universities/ Colleges	Primary	---	---	---	---	Secondary	Universities and colleges should originate and sell immediately to secondary market. A few (only) might be able to service.
Commercial Banks	Secondary	---	---	---	Secondary	Secondary	Cannot originate on own terms. Do not bear risk. Need not provide capital or service.
Secondary Market & Servicer (SALLIE MAE)	---	---	---	---	Intermediary	Primary	Should take loans from originator and collateralize in primary capital market. Should service most loans.
Primary Capital Providers (Trusts, etc.)	---	---	---	---	Primary	---	Capital in large amounts must come from, e.g., pensions, trusts, foreign dollar holders, etc.
Federal Government (Taxpayers)	---	Primary	Primary	Primary	---	---	Only substantial bearer of risk and source of subsidies.
State Government (Taxpayers)	---	Secondary	---	Secondary	---	---	May bear some risk or provide some additional subsidy to borrower.
State Guarantee Agencies	---	Secondary	---	---	---	Primary or Secondary	Could bear partial risk. May also service and collect.
Private Loan Servicing Entities	---	---	---	---	---	Primary	Requires large computer and good systems... Easily privatized.

(July 1991)

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PREPARED STATEMENT OF DONALD J. NOLAN

On behalf of
The State Higher Education Executive Officers Association

Before
The Budget Committee
U.S. House of Representatives

Chairman Panetta and distinguished members of the Committee:

I appreciate this opportunity to testify before you on the reauthorization of the Higher Education Act. I am Donald J. Nolan, the Deputy Commissioner for Higher and Continuing Education for the New York State Education Department. I speak today on behalf of the State Higher Education Executive Officers Association, SHEEO, which represents the fifty executives of statewide higher education coordinating and governing boards for the nation.

SHEEO seeks your support for a major reform to Title IV of the HEA, one that would protect the large Federal investment in student assistance by allowing the states to be the approving agencies for institutions that receive Title IV funds.

As you know, Title IV student assistance programs are a major Federal investment in promoting access to postsecondary education in the U.S. These programs received appropriations approaching $11 billion in fiscal '91 and accounted for $18 billion in assistance going to millions of needy students. Title IV funds comprise about 20 percent of all public support for postsecondary education in the nation, with the other 80 percent coming primarily from the states.

The states have a vital interest in assuring that Title IV programs serve our students. We are alarmed by the large and growing number of reports of abuse, fraud, and mismanagement associated with Title IV; by defaults costing $2.5 billion in fiscal year '90 and projected to rise to $2.9 billion in fiscal year '91; by the failure of a major guaranty agency; and by the millions of dollars of illegally disbursed Pell funds, particularly at the occupational, vocational, technical and trade schools cited by the U.S. Department of Education's Inspector General. We are equally alarmed by the damage being done to thousands of Title IV aid recipients who are poorly served; who are defrauded; and who have outstanding loans for education they did not receive.

These problems must be addressed by this reauthorization. The first priority must be to stem what the Department's Inspector General has called the "bleeding" of the Federal treasury. Default costs alone are the third largest expenditure item in the U.S. Department of Education's budget, according to the Congressional Research Service. The second priority must be to establish ongoing mechanisms to assure that all the institutional entities in Title IV -- the schools, the accreditors, the state licensing agencies, the lenders, the guarantors, and others -- meet basic standards of practice. It is clear that today the focus must be on improving practice at postsecondary institutions and state licensing agencies. This is an area repeatedly emphasized by all who have examined Title IV problems: the GAO, the Senate Permanent Subcommittee on Investigations, and the Inspector General of U.S. Department of Education, to name a few.

Several approaches for improving the practices of postsecondary institutions are already in place. There have been eighteen pieces of Federal legislation since 1980 containing provisions to address loan defaults. The more recent amendments bar students and institutions from participating in the loan programs when default rates exceed selected thresholds. Similarly, a recent amendment bars prospective students without high school diplomas from receiving Title IV aid unless they pass a federally approved standardized test. Education Secretary Lamar Alexander has also taken steps to make improvements to his Department's administration of Title IV institutional eligibility and certification procedures.

As important as these efforts are, SHEEO believes that the best way to offer long-term protection to students and Federal taxpayers is to encourage the states to serve as the agencies that assure the integrity of institutions and programs receiving Title IV funds, in partnership with the Secretary. This approach -- based on the notion that the buck has to stop somewhere -- is a major feature of the Integrity in Higher Education Act of 1991 (HR 2716), introduced in June by Representatives Goodling of Pennsylvania and Lowey of New York.

Obviously, reform is needed, given the fact that, under current law, Title IV institutions must be authorized to operate in the states in which they are located before they can receive Title IV funds. SHEEO research indicates that within the past few years many states have enacted laws to protect their students from fraud and abuse, especially at vocational and trade schools where most of the abuses have been uncovered and where Title IV funds comprise the primary funding source. However, despite these developments, several shortcomings remain. First, in many states, the function of state oversight for noncollegiate institutions rests with a secondary, not postsecondary, agency. Second, funding for enforcement of existing laws and regulations has been limited in part because of the lack of priority given to oversight activities by the secondary agency. Third, many states continue to emphasize business and financial practices, rather than broader concerns with educational effectiveness and efficiency that have been of central concern to many Federal and state policymakers. Finally, standards across states continue to be inconsistent and uneven.

The proposed Integrity in Higher Education legislation offers an alternative that would save the Federal treasury much more than it would cost to implement, and in our view, is the best hope for assuring long-term accountability in the Title IV programs.

This proposed legislation would authorize the Secretary to enter into agreements with a state, or consortia of states, to establish a State Postsecondary Approving Agency. The Secretary would be authorized to provide funds to the Postsecondary Approving Agency to review and approve postsecondary institutions and programs for the purposes of Title IV eligibility. Each agreement would describe the organizational structure of postsecondary education in that state and each Postsecondary Approving Agency would be the single contact point with the Secretary for that state, regardless of how many separate agencies actually performed review and approval functions for that state.

Each Approving Agency would enforce its own state's standards of management and educational practice but the Act enumerates those areas in which state standards would have to be established. The standards would be developed in consultation with the institutions of the state and could be different for different classes of institutions within the states, as defined by state laws. The Secretary would be authorized to reimburse the states for the costs of performing Approving Agency functions provided for in the agreements. Total appropriations would be capped at one percent of the amount appropriated for Title IV assistance and each state's share of the appropriations would be determined by the share of Title IV funds received by students attending its institutions. No state would be required to enter into an agreement unless Federal funds were appropriated to reimburse it. A more detailed summary of the Act is in Appendix A of my testimony; the full text is in Appendix B.

Many states have addressed the issue of postsecondary educational integrity and quality in recent years, with positive results. While many states could be cited, let me briefly describe what has happened in the state I know best, New York. Our Board of Regents has sweeping powers to review and approve all levels of postsecondary education offered by all types of institutions-public, private non-profit, and proprietary. Among our degree-granting institutions, our review activities have consistently led to program improvement and, in some cases, discontinuance. Our strong initial approval procedures have served to deter the establishment of weak programs. Despite these strong regulatory powers we have been able to work collegially with our nearly 250 colleges and universities, many of which are world class institutions.

New York has separate standards for schools that do not offer degree-credit instruction, namely, the occupation, vocational, trade, and technical schools that are primarily for-profit corporations. In 1990, the State Legislature strengthened our authority to regulate these non-degree schools. As a result, we now have $1 million in a tuition reimbursement fund -- financed by a fee levied on the 300 schools -- to protect students whose schools have closed and to enable the return of their loan principal to lenders to avoid defaults. In the first full year the new regulations were in effect, we made roughly 400 unannounced visits, reviewed about 1,000 school applications to offer educational programs, and processed over 1,000 student complaints.

In her statement introducing the bill, Representative Lowey gave several good reasons for relying on the states to address the mounting problems in Title IV institutions. Among them, she noted that "the states are much closer to the problem than the Department of Education and are much more likely to be able to conduct...vigorous oversight." She also pointed out that, with respect to the integrity of taxpayer dollars, "it is of fundamental importance to ensure that there is strong oversight ... by a governmental body that is responsible to the public." She also correctly noted that "many states are willing and able to take on this responsibility."

The Goodling-Lowey proposal for the establishment of State Approving Agencies is central to the restoration of public confidence in the integrity and quality of postsecondary institutions whose students receive Federal assistance. It is our belief that both students and taxpayers will be better served and protected through the enactment of the provisions contained in this legislation.

Thank you for your kind attention. I would be pleased to respond to questions.

PREPARED STATEMENT OF CHARLOTTE J. FRAAS

Mr. Chairman and members of the committee, my name is Charlotte Fraas. I am a Specialist in Social Legislation at the Congressional Research Service. It is pleasure for me to appear before you today to testify on the issue of Guaranteed Student Loan (GSL) defaults. I have followed the default situation as part of my duties as the CRS analyst primarily responsible for the GSL program. Recently, some colleagues in the education section and I completed a series of reports on the proprietary sector of postsecondary education. My focus was on the participation of proprietary school students in Federal student aid programs, including the effects of such participation on student loan defaults.

HOW DEFAULTS AFFECT THE GSL BUDGET

Essentially, there are three major costs to the Federal Government for GSLs: interest benefits for students; interest subsidies for lenders; and borrower defaults. These and other Federal costs are incurred through contracts between the Federal Government and lenders, and State level loan guaranty agencies. Such costs are offset by receipts, primarily collections on defaulted loans, from nonfederal sources. GSLs are entitlements funded under permanent contract authority.

In recent years, default claims paid by the Federal Government have constituted ever increasing shares of GSL program obligations. One reason is that such default costs have risen faster than other program costs. In particular, U.S. Treasury bill (T-bill) rates, which drive the costs of interest subsidies, have remained relatively low. This fiscal year, Federal default payments will be an estimated $3.5 billion constituting about 53% of total gross program obligations. Such payments will be offset by an estimated $880 million in collections.

Federal default costs result from contracts between the Federal Government and State level guaranty agencies to provide reimbursement to such agencies for the insurance claims they pay lenders (or loan holders) for student loan borrower defaults. Lenders must pursue certain federally mandated "due diligence" collections procedures for 180 days after a loan becomes delinquent before they can file a claim with the loan guarantor insuring the loan for 100 percent of loan principal plus accrued interest. At 180 days of delinquency, the loan is considered "defaulted."

After the lender receives the insurance payment on a defaulted loan from the guarantor, the loan is assigned to the guarantor for collection, also under federally prescribed procedures. After the loan is delinquent for 270 days, the guarantor may file a reinsurance claim with the Federal Government for 100 percent reimbursement for the insurance payment made to the lender. If the guarantor has a volume of default claims exceeding 5 percent of the principal it insures, the reimbursement rate drops to 90 percent on reinsurance claims made for the remainder of the fiscal year; if default claims exceed 9 percent, the reimbursement rate is 80 percent.

Because the GSL program is an entitlement program, the cost of GSL defaults has been a critical issue during budget reconciliation, particularly during the 101st Congress. Default reduction provisions were included in the Omnibus Budget Reconciliation Acts of 1989 and 1990 (P.L. 101-239 and P.L. 101-508). As Congress considers the reauthorization of the Higher Education Act (HEA) in the 102d Congress, the default situation is likely to again come under scrutiny.

THE CONDITION OF DEFAULTS

The costs of GSL defaults to the Federal Government of $3.5 billion are an all time high. Why? One reason is a rise in the volume of loans in repayment, resulting from increases in principal borrowed annually: increases in the sheer size of the program. The other reason is a rise in the rate of defaults, attributable to increases in the use of the program by high financial risk borrowers who subsequently default.

The Relationship of Program Volume to Defaults

The GSL program has grown significantly in the 1980s. In FY 1980, about $4.6 billion in loan principal was disbursed. Disbursements in FY 1991 will be an estimated $11 billion. During the same 11 year period, obligations for defaults increased from $263 million to $3.5 billion.

TABLE 1. GSL Disbursements and Obligations for Defaults
FY 1980-FY 1991
(in millions of dollars)

Fiscal year	Loan principal disbursed	Obligations for defaults
FY 1980	$4,598	$263
FY 1981	7,433	235
FY 1982	5,927	286
FY 1983	6,582	486
FY 1984	7,520	749
FY 1985	8,467	1,016
FY 1986	8,142	1,318
FY 1987	9,272	1,269
FY 1988	10,380	1,389
FY 1989	10,938	1,911
FY 1990	10,871	2,385
FY 1991	10,979	3,500[a]

[a] Estimate provided by Department of Education Budget Office July 17, 1991.

Source: U.S. Department of Education. Office of Student Financial Assistance. *FY 1989 Guaranteed Student Loan Data Book. Executive Summary.* U.S. Department of Education Budget Office.

With regard to these increases in default costs, an important consideration is that the more loan principal borrowed, the more loan principal enters repayment, and the more money is subject to default. For example, in FY 1980 about $3.7 billion in GSL principal was in repayment from loans that had been borrowed since the program began in FY 1966. At the beginning of FY 1991, $34.3 billion in GSLs was in repayment. Even with stable default rates, a rise in default costs would occur.

Collections on defaulted loans partially offset total Federal default costs. Since FY 1980 GSL collections have risen from $68 million to an estimated $880 million in FY 1991. The IRS offset program, which has existed since 1986, attaches Federal tax refunds due GSL defaulters and applies the amount to the debt they owe the Federal Government. Over a billion dollars has been collected through this program, which will expire January 10, 1994.

TABLE 2. Collections on Defaulted GSLs, FY 1980-FY 1991
(in millions of dollars)

Fiscal year	Regular collections	IRS offset collections	Total
1980	$68		$68
1981	65		65
1982	78		78
1983	110		110
1984	162		162
1985	221		221
1986	278	$92	370
1987	358	105	463
1988	362	133	495
1989	423	159	582
1990	438	235	673
1991[a]	494	386	880

[a] Estimate provided in FY 1992 budget documents.

Source: U.S. Department of Education. Office of Student Financial Assistance. *FY 1990 Guaranteed Student Loan Programs Data Book. Executive Summary. [Draft]*

Increased Borrowing by High Financial Risk Students

The second reason for the rise in default costs is increases in the default rate due to borrowing by high financial risk students. This is evidenced by increases in the 1980s in the proportion of GSL borrowers who attend proprietary schools. Student loan default studies consistently show proprietary school students to be at highest risk of default, and their increased use of GSLs has contributed to increased default rates.

Department of Education data show that in FY 1980, 7.5 percent of Stafford loan borrowers were proprietary school students and they borrowed about 6 percent of loan volume. By 1989, proprietary school student borrowing increased to about 33 percent and their loan volume to 27 percent. The Stafford loan program, the largest of the GSL programs, provides subsidized loans to low income students on the basis of need. A reason proprietary school student borrowing is on the increase is that such students tend to be low income and the schools tend to be more expensive so the students qualify for significant amounts of student aid. A 1986 student aid survey found 67 percent of proprietary school students borrowed GSLs, compared to a nonproprietary school borrower rate of about 18 percent.

Even more significant has been the recent use of the smaller unsubsidized Supplemental Loans for Students (SLS) program by proprietary school students. After 1986 program amendments eliminated a limitation on the use of such loans by independent undergraduates, SLS loan volume jumped from $279 million in FY 1986 to over $2 billion by FY 1988, and the bulk of the increase was attributable to borrowing by proprietary school students.[1] The proportion of SLS borrowers attending proprietary schools was about 10 percent in FY 1986 rising to over 50 percent in FY 1987 and to 65 percent in FY 1988.

Such patterns of borrowing are believed to have increased default rates because proprietary school students default at significantly higher rates than students attending other types of institutions. ED analyzed a random sample of Stafford loan borrowers who entered repayment in FY 1985 and found that 50.6 percent of proprietary school borrowers defaulted on their loans by the end of FY 1988. This compared to about a third of community college students; default rates for students at 4-year schools are considerably lower. The average default rate was 26.0 percent.

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[1] U.S. General Accounting Office. *Supplemental Loans for Students: Who Borrows and Who Defaults.* Washington, Oct. 1989. GAO/HRD-90-33FS.

Why are proprietary school student default rates so high? No studies have been conducted on proprietary school borrowers per se to answer the question. Studies of loan defaults indicate that the major characteristics of defaulters are also the characteristics of students more commonly served by proprietary schools: low income of the student or his or her family; enrollment in a short term course of study; low loan balance. Some believe that abusive practices by or characteristics of some schools--misleading advertising, recruitment of unqualified students, poor educational programs--contribute to a student's proclivity to default.

What we can determine from available data is that nationally, defaults are rising. Historical measures of GSL default rates are based on cumulative program experience--now 25 years' worth of data--and are not a particularly good measure of shorter term default trends. Nevertheless, these data do suggest that we have been experiencing a worsening default situation, particularly since FY 1986.

A cohort default rate, which looks at a particular group of borrowers for their default experience over a limited time, is a better measure of borrower defaulting from one year to the next, but analyses using such rates have only begun recently.

Last week ED released its national analysis of the FY 1987 through FY 1989 cohort default rates used to implement provisions of the recent reconciliation laws, and these data indicated a notable rise in defaults. The FY 1987 cohort of borrowers had a 17.6 percent default rate nationally. This rate for the FY 1989 cohort was 20.1 percent. The "cohort" used is borrowers entering repayment in a given fiscal year. The rate is the number of such borrowers who default by the end of the following fiscal year divided by the total borrowers in the cohort.

EFFECTS OF RECENT BUDGET RECONCILIATION LEGISLATION

In the 101st Congress two major budget reconciliation laws were enacted to achieve GSL program savings primarily through reducing defaults: the Omnibus Budget Reconciliation Acts (OBRA) of 1989 and 1990. The most significant provisions of both laws sanctioned schools whose students default at high rates by limiting their participation in the program. OBRA 1989, effective Jan. 1, 1990, prohibits undergraduate students at schools with cohort default rates of 30 percent and over from borrowing SLS loans. OBRA 1990 makes schools with cohort default rates of 35 percent and over for each of the three most recent fiscal years ineligible for participation in any of the GSL programs effective July 1, 1991.

It is too early to assess the effects of these laws on default costs because there is a considerable time lag between the time a loan is disbursed to the borrower and a default claim is paid by the Federal Government. GSLs enter repayment status at varying times and a loan could not result in a Federal default claim until at least 9 months thereafter. According to program analysts, most Federal GSL default claims are paid an average of 3 to 5 years after a loan is made to the student. Defaults would be expected to show up earlier for SLS loans, which enter repayment status sooner than Stafford loans, or if borrowers are mostly in short-term educational programs. For example, defaults on loans to proprietary school students tend to peak about 2 years after the loans are disbursed.

The effects of the 1989 OBRA on Federal default costs, therefore, will not be apparent until FY 1992 at the earliest. We can, however, make some preliminary observations on possible effects of OBRA 1989 on SLS program participation that could have important implications for defaults.

The Department of Education reports that undergraduate students at 712 high default schools were made ineligible for SLS loans between March of 1990 and this July under provisions of OBRA 1989: 601 of these schools were proprietary schools. Apparently as a result, a large number of these schools closed because they were dependent on SLS eligibility of their students to exist.

GSL program data shows a $615 million reduction in SLS borrowing by proprietary school students between FY 1989 and FY 1990. Also of interest was about a $460 million decline in Stafford loan borrowing by such students. This suggests that large numbers of students received both types of loans and were unable to continue their educational program without access to the SLS program. If you assume, based on analyses of defaulted dollars, that at least 45 percent of the $1 billion reduction in GSL principal borrowed by proprietary school students would at some time default (probably for this group attending high default schools it would be a higher rate), then you would eventually realize significant cost savings from this FY 1990 volume reduction alone.

Based on provisions of OBRA 1990, 178 schools have been notified that they are subject to program termination. Also 76 schools with FY 1989 default rates over 60 percent could be subject to departmental limitation, suspension or termination actions applicable to their participation in any Federal student aid programs. The effects of the elimination of these additional schools from GSL program participation on loan volume will not be apparent until FY 1992 at the earliest, with effects on defaults being indicated several years later.

A couple of other factors may influence GSL defaults over the next few years that could offset savings that might be realized through the reconciliation laws. For fiscal year 1991, ED has reestimated Federal default costs from $2.8 billion to $3.5 billion, based on increases in default claims coming into the Department. While the specific reasons for the increase are not apparent, program analysts suspect that the recession may be one factor. The recession began about July of 1990 and roughly 9 months later claims began to increase beyond expected levels--the minimum period a loan could go into default and a claim filed. An important question is why loan deferments available for unemployed borrowers would not help counteract the effects of the recession.

Another factor that may be resulting in higher defaults in FY 1991 might be an unintended consequence of the SLS restriction. Some propose that students who attended schools that closed as a result of losing SLS eligibility may believe that they have no obligation to repay their GSL since their educational program was incomplete: we may now be seeing the results of FY 1990 school closures in increased defaults.

LEGISLATIVE OPTIONS TO REDUCE DEFAULTS COSTS

The challenge in considering future options to reduce defaults is balancing budget policy with program policy goals. Since 1980, Congress has enacted some 17 different laws, to one degree or another addressing default control. At this time, options that are likely to have the greatest impact on reducing default costs would be those to further reduce loan volume or the participation of borrowers most prone to default in the GSL program.

One option that could significantly reduce defaults would be to further lower the default threshold for school eligibility for GSLs. With this alternative, you face the consequence of reducing the access of some students to Federal student aid, and potentially to postsecondary education. Another option to achieve the same goal would be to deny loans to certain default prone student groups and increase other types of student aid for them, such as Pell grants. This would require significant increases in appropriations for the non-GSL student aid programs, however.

Another option that might be considered would be to increase receipts coming into the GSL program to offset default costs. Now both students and guaranty agencies pay certain fees to reduce program costs. Some new GSL participation fee for schools might be considered.

Default reduction proposals concentrating on preventing defaults among the current borrower population or improving collection efforts would arguably have less of an impact on future default costs than those discussed above. This is because such costs are largely driven by volume and the nature of the current borrowers. There are several bills pending before the 102d Congress containing such proposals, the merits of which are likely to be debated during the forthcoming reauthorization.

PREPARED STATEMENT OF THOMAS A. BUTTS, ASSOCIATE VICE PRESIDENT FOR GOVERNMENT RELATIONS, UNIVERSITY OF MICHIGAN, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND GRANT COLLEGES

Mr. Chairman and Members of the Subcommittee, I am Thomas A. Butts, Associate Vice President for Government Relations at the University of Michigan. I am pleased to appear before you today on behalf of the National Association of State Universities and Land Grant Colleges (NASULGC) to discuss the possibility of a major improvement in the student assistance programs through direct Federal loans.

By way of background, I was the Director of Student Financial Aid at the University of Michigan from 1971 to 1977. From 1977-1981, I was on leave from the University and served with the U.S. Department of Education as a policy advisor for student assistance and later as the Deputy Assistant Secretary for Student Assistance. I have continued since then to be involved in student aid policy issues.

Mr. Chairman, the American Council on Education (ACE) and twelve other higher education associations, including NASULGC, submitted a direct lending proposal to you on April 8, 1991. The bill language submitted at that time would, in substance, implement the proposal which I will describe in more detail today. The NASULGC Executive Committee has asked that its Legislative Committee explore further the feasibility of Federal direct lending, including substituting direct loans for the Stafford part of the Guaranteed Student Loan Program (GSL). Indications are that this is possible. This statement is, in part, an update to an April 30, 1991, NASULGC paper regarding direct lending.

Credit reform, Mr. Chairman, and this reauthorization of the Higher Education Act provides a rare opportunity for you to consider a serious restructuring of the student loan programs and make significant improvements by authorizing a program of direct loans. The credit reform provisions of the Budget Reconciliation Act of 1990 made significant changes in the way the government accounts for the credit it extends in the form of loan guarantees and direct loans.

According to the December 1989, Congressional Budget Office study on credit reform,

> The difference in the budgetary treatment between direct loans and guaranteed loans creates a bias in favor of guarantees because their costs are deferred. When the costs are known (after default) and finally recorded in the budget, they are well past the government's control. Consequently, loan guarantees have been growing much faster than direct loans in recent years. **The total cost to the government of the new guaranteed loans is now many times more than the cost of new direct loans.** (p. xii - emphasis added)

The President's FY 92 Budget states that:

> Clearly, credit reform is not "just" an accounting change. It is an opportunity to see each program with fresh eyes. Credit reform asks the right questions: Who is being helped? By how much? At what cost? It focuses attention and budgetary decisions on the costs underlying each loan, juxtaposed with the borrowers who benefit from these programs. It provides perspective for both policy analysis and program management. (Part Two - 226)

What are the implications of credit reform for student loans?

The Federal government presently obtains capital for the GSL program by paying **retail** price incentives to the capital markets. Under credit reform, it can obtain capital **wholesale** from the same (and other) private capital markets. This reduces significantly costs to the taxpayers.

Prior to credit reform, the entire amount of the capital used for direct loans appeared as a Federal cost. Only government subsidies were included in the Federal budget for guaranteed loans - not the loan capital. This apple and orange situation caused direct loans to appear more costly than guaranteed loans.

Under credit reform, both types of loans are priced the same way. Only the costs associated with obtaining the capital and subsidies are counted in the budget - not the amount of capital involved. In the case of GSLs, the government obtains capital from private capital markets through guarantees and special allowance incentives (Lenders are entitled to the average of 91 day Treasury Bills plus 3.25% with no cap). In the case of direct loans the government acquires capital from private capital markets through the sale of government securities (treasury bills, etc.).

With credit reform, the cost to the Treasury of a cohort of GSL or direct loans made each year is scored in the budget for the projected life of the loans. Included are costs paid by the government for defaults and the cost of capital such as special incentive allowances to lenders (for GSL) or the cost of Treasury securities (for direct loans). Federal administrative costs are accounted for as a line item in the mandatory part of the budget.

An examination of the cost of a direct student loan and a loan guarantee, all factors like student interest rate being held equal, will show that a direct loan will be less costly to the government than a GSL - primarily because the government can borrow money from the private sector at Treasury bill rates for direct loans rather than the 91 day Treasury bill rate plus 3.25% now assured to GSL lenders, even during the in-school period.

Under credit reform, government **borrowing** from the private sector **for direct loans does not increase the deficit.** The **payment of higher GSL subsidies does increase the deficit.** In addition, direct borrowing for student loans would replace existing guaranteed borrowing. Also, over time the flow of repayments back to the capital markets would approximate the amount borrowed for new loans - thus establishing something akin to a national revolving fund.

Would a direct loan program be an entitlement?

For a direct loan program to be supported by the education community, it **must be an entitlement** (mandatory) program as is the current GSL program. Similarly, the **amount** of capital available under a direct program must be **limited by student eligibility** - not by a fixed total amount or cap per year. In this respect, it would be identical to the existing GSL program except that capital availability would not be dependent on lender willingness to loan.

Why restructure the student loan programs?

Credit reform has made direct loans a less costly way to deliver loan assistance to students. Savings in the first year alone have been estimated to be greater than one billion dollars. Mr. Chairman, I believe that the documentation that you requested from the the Education Department (ED) on April 25, 1991 (when supplied to you) will substantiate the savings - savings which should be directed to students.

The recent report of the Senate Permanent Subcommittee on Investigations, chaired by Senator Sam Nunn (D-GA), documented many of the costs and problems associated with the GSL program. Among them are: the rate of student defaults, the financial failure of one major guarantee agency, questions about the strength and number of guarantee agencies, severe problems in managing student loans by lenders, and fraud and abuse by certain lenders and some trade schools. The General Accounting Office (GAO) recently reported that the GSL program has become such a maze that it cannot be audited.

The Nunn report calls for the Congress to "...undertake major and, in some areas, drastic reform..." of the GSL program. (p.34) The GAO is called upon to study the feasibility of alternative approaches including "...abolishing the guaranty agency concept." (p. 39)

The GSL Program is an immensely complicated and expensive program for students, schools and the ED. With more than 13,000 lenders, over 50 guarantee agencies and several secondary markets participating in this error prone program, the bewildering array of paperwork, regulations, procedures and fees is enormous. Many colleges and universities deal with every guarantee agency during the course of the year and with hundreds of lenders. Notwithstanding efforts by some guarantors and lenders to streamline the GSL program, it takes unnecessary time within the institution, plus the time required by guarantors and lenders, to process GSLs. Despite empty promises made by guarantee agencies for more than 15 years, institutions are still subjected to different policies, forms and computer formats by each agency.

By contrast, a school can process and deliver a Perkins Loan along with a student's regular application for grants and scholarships. **This significantly reduces the amount of paperwork.** A direct loan would be originated much like a Perkins loan. The institution has direct control over the timing and distribution of loan funds. This control would enable the institution to assist students better and improve institutional cash flow.

Direct loans can provide a number of **advantages to students** including the elimination of the GSL application, timely delivery of aid, more student counseling by financial aid officers, elimination of up front origination and insurance fees, improved access to deferments, automatic loan consolidation, choice of repayment plans with no additional charges, and reduction in the constant pressure to increase student interest rates to offset government subsidies. Further, students experiencing hardships or changes in financial circumstances requiring an adjustment in the amount of their loans will be able to have their requests dealt with promptly. On the collection end, students will know who "owns" their loan - the government. In addition, student horror stories which abound about the paperwork obstacles to higher education caused by both obtaining and repaying GSLs would be vastly reduced and be no greater than those experienced with the grant delivery system which is expected to be simplified by the Congress as part of reauthorization. Given the recent flexibility to schools to determine loan amounts in the GSL program, "red-lining" should be prohibited.

As a matter of Federal policy, the GSL program has evolved and shifted from being the major program of support for middle income students to the primary loan program for students with demonstrated financial need. When the GSL program was created in 1965 (modeled after several existing State guarantee programs), it was intended to provide loans to students from middle income families. Since low income students were served by the Perkins program, there was little necessity for these students to obtain GSLs. In the absence of credit reform, this change in focus resulted from the inability of the Congress to appropriate adequate loan capital for the Perkins program and still maintain support for the grant programs. There is no point in having two Federal student loan programs with the same financial needs test if there is adequate capital available to meet all student need remaining after grants have been awarded.

The GSL program, however, is now asked to provide three types of loans - Stafford loans for students who demonstrate financial need, Parent Loans for Undergraduate Students (PLUS), and Supplemental Loans for Students (SLS) who do not qualify for Perkins or Stafford loans or who need more money than they are able to qualify for under other student assistance programs.

Experience with the Perkins program shows that operationally direct loans serve both students and most institutions better than Stafford loans. Under a direct loan, origination is simple and the student knows who made the loan.

How would the government obtain capital for direct loans?

The Secretary of the Treasury, in consultation with the Secretary of Education, would sell treasury securities to the private capital markets in accordance with its usual practice to obtain necessary capital. This would be accomplished in the same way funding for Sallie Mae was provided until 1981.

Under that procedure, the Secretary of the Treasury, through the Federal Financing Bank, sold government securities to the private sector at the appropriate time and made the funds available to Sallie Mae. That system worked nicely, and Sallie Mae is making payments on about $4.8 billion it still holds. In the case of direct loans, the Secretary of the Treasury would make funds available to the Secretary of Education for allocation to institutions through the ED finance system from which institutions presently draw student aid funds.

It is important to note that all of the "finance" matters pertaining to the capital would be handled by Treasury. For direct loans, ED would no longer be expected to have expertise in finance, lending, loan guarantees or secondary markets. Repayments would return to the private markets through the Treasury and not be left to accumulate in institutional revolving funds as is the case with Perkins loans. Allowing collections to remain in institutional revolving funds would cause the proposed program to lose its status as an entitlement or mandatory program. Perkins loans are scored in the budget as discretionary grants to institutions because the loans become part of revolving funds at the institutional level. The concept of "insurance" does not apply in the case of a direct loan since the government already owns the loan note.

How would a direct loan program operate?

A new direct loan program would be similar in concept to the Pell Grant Program, i.e., institutions are essentially agents of the federal government and process the loan on the government's behalf. The Pell Grant Program is not technically a campus based program. Students receive vouchers (Student Aid Reports) that they may use at any eligible institution.

While a student voucher would not be involved, a direct loan program would operate in a similar way in that the loan is made directly by the federal government to the student with the institution acting as the originator.

How would funds be allocated to institutions?

The allocation of funds to institutions could take place following one or a combination of existing models. A preferred approach would be to use the distribution system utilized for Perkins loans and the other campus based student aid programs. Under this method, the Fiscal Operations Report and Application (FISAP) would be used to make initial allocations each year. Institutions would indicate on the FISAP the amount lent in the previous year and project needs for the coming year. Institutions not participating in the campus-based programs would only complete the direct loan section. The ED would approve all initial requests, unless it had reason to believe the request was not reasonable or the school was not eligible. Another approach would be to use the Pell Grant allocation system. In either case, the reconciliation of individual student records would NOT take place at this point in the process. Special adjustment requests would be made during the course of the year by institutions to increase or decrease their allocations in accordance with actual student eligibility for direct loans. Reconciliation of individual student accounts would occur at the end of the year with the filing of the FISAP report.

Under either approach, institutions would follow existing ED procedures to draw necessary funds on a timely basis to fund all eligible students. These procedures do not allow institutions to obtain funds more than three days in advance of the time they are to be expended.

How would student eligibility be determined?

Following current practice, students would apply for all forms of financial aid and provide need analysis information to the institution(s) they attend or plan to attend.

Institutions would conduct a need analysis, determine eligibility, package direct loans with other student aid and notify the student of award amounts and conditions.

How would the loan be disbursed to the student?

Like the Perkins loan program, institutions would prepare a promissory note for the student's signature. Following appropriate loan counseling procedures, the student would sign the promissory note. Funds would then be credited to the student's institutional account or given to the student depending on the circumstances. For those institutions who do not participate in the Perkins program, the signed promissory note would be similar in concept to the Student Aid Report necessary to make payments to students.

What would happen after the loan is disbursed?

The Federal Government (Education Department) would have responsibility for servicing and collection. ED would have contracts (including performance bonuses) with private sector servicers for billing and collection. Institutions who so desired and were qualified might act as servicers for their students.

Institutions would deliver signed promissory notes to an ED contractor. It is expected that arrangements would be made for several means of delivery, including possible electronic transfer of notes.

Would there be a national data base with direct student loan information?

Yes. Multiple year notes and notes from different schools would be consolidated immediately under this system. With the opportunity to establish a new central file, the insurmountable data problems of the existing GSL program would be phased out. The Pell Grant Program has demonstrated that a central processor can work with multiple data entry contractors. In this case, loan servicers would relate to a central processor in a similar manner. Servicers would be required to meet uniform ED specifications and would be subject to audits and reviews by ED.

Institutions would continue to report enrollment status as they do now in the GSL program - only with one uniform reporting system synchronized with institutional academic calendars.

Since most of the administrative activity would be done under contract, the Department's principal responsibility would be oversight. Other government agencies, such as Treasury, might assist with management of the collection responsibility.

What about administrative support/capability in the Education Department?

While ED has experience in working with private sector servicers and has a credible record in collections, the Congress must set aside salary and expense money for the operation of all of the Title IV student aid programs, including direct loans. Funding should be directed by the Congress for training, technical assistance to institutions, program reviews, contracts, and contract administration. Additionally, Congress should provide initial funding to ED to enable it to obtain and utilize state of the art telecommunications and computer technology to handle loan transactions and management information. This is one of the most important recommendations made by ACE and other higher education associations to the Congress.

The GSL program has been patched together over the years to the point where it cannot be audited or managed effectively. Under difficult circumstances over the past ten years, ED has done a credible job of administering the Pell Grant and campus based student aid programs. In addition, it has managed Perkins and GSL default collections activity well under these conditions. Indeed, as the Nunn hearings have demonstrated, there is serious question about the quality of some of the servicing done by private lenders in the GSL program. The ED system makes use of private servicers and loan collection contractors in addition to the IRS offset program. ED has also managed large elementary and secondary education programs well.

Since a direct loan program would not have the complexities of lenders, secondary markets and guarantors, it would clearly be easier for the ED to manage than Stafford loans. All financing matters would be handled by the Secretary of the Treasury. ED would handle the delivery and oversight of institutions and collection/servicing contractors. For direct loans, it would no longer be necessary for ED to monitor 13,000 lenders, over 50 guarantee agencies and the participating secondary markets. This should enable ED to avoid over regulation and micro management of the program.

Direct loans would operate more like Perkins loans and would not at all be similar to the Federally Insured Student Loan (FISL) program which was a guarantee type program abused by some institutions and lenders and lacked administrative support within ED. Correspondence schools, for example, no longer participate in GSL. They were major participants in the FISL program and a source of many problems.

All of this comes at a time when Secretary of Education Lamar Alexander has announced his initiative to make major management improvements in the student aid programs. This is encouraging because with good leadership and reasonable resources, public servants can manage programs very well.

Which institutions could participate in direct loans?

The Congress must determine institutional eligibility. Clearly, eligible institutions should be able to demonstrate administrative capacity to meet their responsibilities for fiscal stewardship and management for direct loans or any Federal student aid program. Apart from direct loan responsibility, recent changes in law have eliminated many questionable institutions from the student aid programs. In addition, proposed reauthorization changes in accreditation and licensure by the education community and the Administration would further tighten the system. Finally, with clear lines of responsibility and accountability in a direct loan program, the opportunities for mischief with the taxpayers' money which exist in the GSL program should be reduced significantly.

Would institutions be provided administrative allowances?

It is essential that institutions be provided adequate administrative support. To begin a new program with the promise of eliminating the problems of the existing GSL program without providing good administrative support up front would not be wise. Institutions may find that the administrative savings they achieve from the elimination of all or a part of the existing GSL program will help offset some new costs. The issue must be examined and appropriate administrative allowances and support provided. The ACE proposal suggests an annual $20 allowance per eligible direct loan student.

It should be noted that guarantee agencies now receive one percent as an administrative cost allowance (about $110 million yearly) from government appropriations. Also they have the use of student financed insurance premiums of up to three percent. Agencies also retain 30 percent of collections they make on defaulted loans.

What about small schools or schools that do not presently participate in the Perkins program?

The ED could arrange a contract for an alternative administrative entity which would assist schools that do not wish to administer the loan program themselves or lack the administrative capability necessary to manage it. This alternative system would be similar in concept to the "alternative disbursement system" for Pell Grants which existed prior to 1981.

However, many small schools may find that a direct loan program would be easier to manage than the existing Stafford program. This would be due to the fact that the lender and guarantee activity is removed, time delays to the student eliminated, and cash flow to the institution improved.

What about institutional liability?

Institutions are presently liable for errors made in executing any of the tasks they perform related to the GSL program; this would not change with direct loans. The institution would need to draw down funds, determine student eligibility, and disburse funds correctly. Once promissory notes have been accepted by the government (within a proposed 45 day statutory time limit) liability would end (except, of course in cases of fraud). Institutional liability would be less than GSL since the number of entities dealt with would be reduced and the institution would have control over the entire origination process. In addition, the institution would still have access to the student's account to recover funds and the opportunity to find the student to obtain a missed signature on a promissory note.

What about institutional cash flow?

Most institutions would have an improved cash flow under a system of direct loans. Not only would funds be available when school started, the delays caused by handling checks co-payable to the institution and the student from hundreds of lenders would be eliminated. Of course, institutions would be required to follow existing cash draw procedures which prohibit funds from being on hand more than three days prior to disbursement and from earning "float" while in an institutional account.

Could the financial aid transcript be eliminated?

Currently, notification of a student's federal aid must be made to the institution to which a student transfers. This is accomplished through a cumbersome and expensive financial aid transcript process. With a a national direct loan data file on all students and the existing Pell grant data file, it would be possible to eliminate the financial aid transcript - a major paperwork problem for institutions.

What would happen to the existing Perkins loan revolving funds located at institutions?

Ongoing collections from existing Perkins loans which return to institutional revolving funds should be left at the institutions, invested in new Perkins institutional endowment accounts, and the income used for other student aid purposes or special student loans. Under this approach, collections would be invested in an institutional endowment or total return fund for that purpose and the earnings used for student grants or employment. Over the years, many schools could get out of the loan collection business!

What role might exist for guarantee agencies or lenders?

The parent loan program (PLUS) should be significantly improved as a guaranteed loan for dependent (middle income) students.

The maximum PLUS loan should be determined by the cost of education less other financial aid received by the student as recommended by ACE and other higher education associations. In addition, the tax writing committees should be encouraged to restore the interest deduction for parent and student loans as part of an overall plan to help parents of dependent students.

While all three GSL programs - Stafford, PLUS and SLS - could be operated under a direct system, it could be argued that the low cost of the unsubsidized PLUS and SLS programs together with the more natural relationship between credit worthy parents and lenders makes policy sense to continue these programs. Guarantee agencies may also wish to participate in the servicing function for direct loans.

How should direct loans be phased in?

ACE and twelve other higher education associations have proposed that need based direct loans be available to institutions on an optional basis. Under this proposal, an institution would participate in either Stafford or direct lending. Another option is to substitute direct lending for the Stafford and Perkins programs, bringing all new need based lending under one program. Proposed legislation sent to the House Subcommittee on Postsecondary Education on April 8, 1991, by ACE provides legislative language consistent with the framework for direct loans described in this paper.

For students who have both Stafford and direct loans, direct loans might be made eligible for inclusion in the existing loan consolidation program. The existing Stafford portfolio will, of course, have to be phased out and provisions for transition made if the bolder option is adopted. It might be necessary, for example, to change the existing administrative cost allowance (ACA) of one percent of new loans originated to an allowance based on outstanding loans. In addition, increased PLUS volume might replace a substantial portion of ACA lost due to the elimination of the Stafford loan volume.

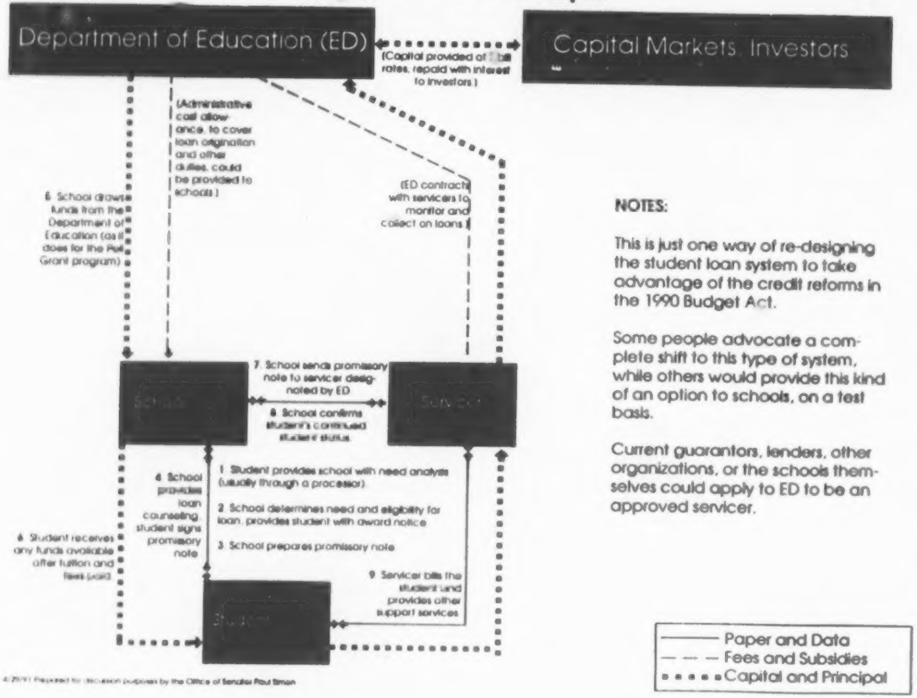
When should direct lending be implemented?

Direct lending should be implemented only after adequate lead time has been provided for detailed planing and preparation. At a minimum that should be one full program (school) year following the date of enactment. For example, if the President signed the enabling legislation in March of 1992, the program should not go into effect until July 1, 1994.

The development of a direct loan plan is a dynamic process that will continue to require the best thinking of many people. The advantages and disadvantages of changing a major student aid program will have to be carefully considered.

Mr. Chairman, thank your for your time and consideration of these ideas. I hope the Subcommittee will take advantage of this opportunity to improve student aid programs. I would be happy to answer any questions you might have.

"Direct Loans": An Example



Department of Education (ED)
Capital Markets, Investors
(Capital provided at T-bill rates, repaid with interest to investors.)
(Administrative cost allowance, to cover loan origination and other duties, could be provided to schools.)
(ED contracts with servicers to monitor and collect on loans.)
5. School draws funds from the Department of Education (as it does for the Pell Grant program)
School
Servicer
7. School sends promissory note to servicer designated by ED
8. School confirms student's continued student status
1. Student provides school with need analysis (usually through a processor)
2. School determines need and eligibility for loan, provides student with award notice
3. School prepares promissory note
4. School provides loan counseling, student signs promissory note
6. Student receives any funds available after tuition and fees paid
9. Servicer bills the student and provides other support services
Student
Paper and Data
Fees and Subsidies
Capital and Principal

4/29/91 Prepared for discussion purposes by the Office of Senator Paul Simon

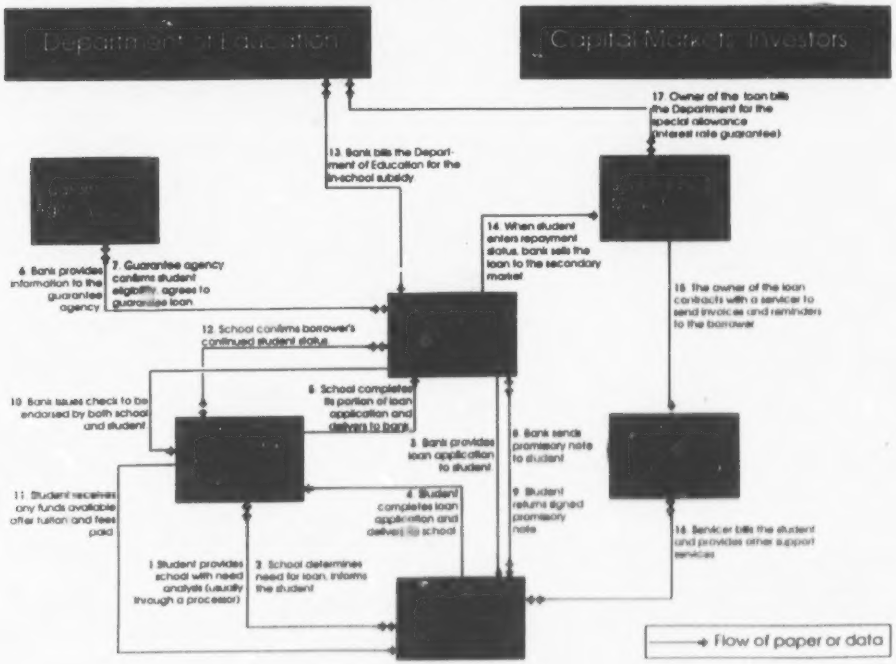
NOTES:

This is just one way of re-designing the student loan system to take advantage of the credit reforms in the 1990 Budget Act.

Some people advocate a complete shift to this type of system, while others would provide this kind of an option to schools, on a test basis.

Current guarantors, lenders, other organizations, or the schools themselves could apply to ED to be an approved servicer.

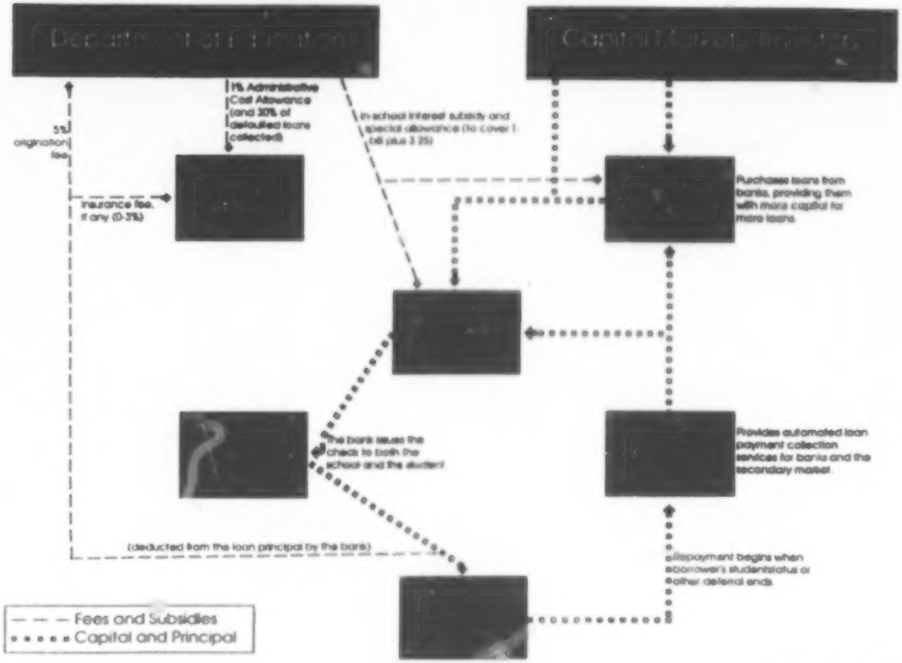
Stafford Loans: The Paper Trail (one version)


Department of Education
Capital Markets Investors
1 Student provides school with need analysis (usually through a processor)
2 School determines need for loan, informs the student
3 Bank provides loan application to student
4 Student completes loan application and delivers to school
5 School completes its portion of loan application and delivers to bank
6 Bank provides information to the guarantee agency
7. Guarantee agency confirms student eligibility, agrees to guarantee loan
8 Bank sends promissory note to student
9 Student returns signed promissory note
10 Bank issues check to be endorsed by both school and student
11 Student receives any funds available after tuition and fees paid
12 School confirms borrower's continued student status
13 Bank bills the Department of Education for the in-school subsidy
14 When student enters repayment status, bank sells the loan to the secondary market
15 The owner of the loan contracts with a servicer to send invoices and reminders to the borrower
16 Servicer bills the student and provides other support services
17. Owner of the loan bills the Department for the special allowance (interest rate guarantee)
Flow of paper or data

4/4/91 Office of Senator Paul Simon

BEST COPY AVAILABLE

Stafford Loans: The Money Cycle


Department of Education
Capital Markets Investors
1% Administrative Cost Allowance (and 30% of defaulted loans collected)
In-school interest subsidy and special allowance (to cover T-bill plus 3.25)
5% origination fee
Insurance fee, if any (0-3%)
Purchases loans from banks, providing them with more capital for more loans
The bank issues the check to both the school and the student
Provides automated loan payment collection services for banks and the secondary market
(deducted from the loan principal by the bank)
Repayment begins when borrower's student status or other deferral ends
— — — Fees and Subsidies
• • • • • Capital and Principal

[illegible] Office of Senator Paul Simon

PREPARED STATEMENT OF A. DALLAS MARTIN, JR., PRESIDENT, ON BEHALF OF THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Mr. Chairman, and distinguished members of the Budget Committee, I am Dallas Martin, President of the National Association of Student Financial Aid Administrators (NASFAA). On behalf of the more than 3,200 institutional members of NASFAA, I am happy to submit this testimony to you for the record on the title IV student aid programs.

As you know, the Congress is currently in the process of reauthorizing the Higher Education Act of 1965. In anticipation of this important reauthorization, NASFAA, in the fall of 1989, embarked upon a systematic action plan to enable the Association to develop a set of recommendations that would reflect the views and address the concerns of our diverse membership. To insure that everyone had an opportunity to provide input during our development process, we not only solicited written comments for over 18 months, but we held a series of six formal hearings in conjunction with each of our regional associations' annual meetings.

The feedback that was received from this process was then carefully reviewed by a special ten-member Reauthorization Task Force. The recommendations developed by that Task Force were then circulated to our entire membership for further comment, and finally, after some adjustments, approved by our 27-member Board of Directors. Therefore, we feel confident that the recommendations which we have submitted to the Congress represent a consensus of the views of the majority of the financial aid administrators from across the nation who are working at institutions representing all sectors of postsecondary education.

Throughout our deliberations we obtained numerous suggestions on how to improve all phases of the student aid programs, as well as suggestions on what needs to be done to strengthen each of the individual federal Title IV student aid programs. However, I would like to focus this testimony on our recommendation to reestablish the Pell Grant as the foundation of the student aid programs by substantially increasing the maximum award to $4,400 and by making the program an entitlement.

During the course of our reauthorization hearings, one of the most frequently-stated concerns of our members was the need to address the growing imbalance of available funding between the grant and loan programs. Repeatedly, aid administrators from all types of schools across the country told us that something needs to be done to restore the purchasing power of the Pell Grant Program so that it can again serve as a viable foundation program for students with demonstrated financial need. Witness after witness told us that changes to the eligibility formula accompanied by inadequate funding levels over the past decade have severely eroded the effectiveness of the program for students at their schools. Many of these witnesses presented data which showed that the percentage of Pell Grant funding at their institutions has declined to one-third or one-half of what it was in 1979. By comparison, they noted that the current maximum Pell Grant award of $2,400 does not begin to cover the same percentage of a student's educational cost as it did ten years ago. Similarly, they told us that many of the students who come from moderate middle income families no longer qualify for even a modest Pell Grant.

Since the Pell Grant Program's first authorization in FY 1973, the Appropriations committees have funded the program at its authorized maximum only three times--most recently in FY 1979. In all other years, the program maximum has been below the policy levels set by the authorizing committees. The failure of appropriations to match authorized maximums is even more stark when cost of attendance increases for the 10 year period beginning 1980-81 are compared to the Pell Grant maximum award increases for that period. In 1980-81, the Pell Grant maximum was set by appropriations at $1,750 and rose only $650 or 37% during the 1980s. The current $2,400 maximum award also represents only a 14% increase over the $2,100 maximum award in 1987-88--the beginning of the last reauthorization period. The percent change from 1980-81 to 1989-90 (est.) in postsecondary education's cost of attendance reveals increases of 133.9% for private universities, 123.2% for private four-year colleges, 105.3% for public universities, 105.2% for public four-year colleges, and 72.5% for public two-year community colleges. These figures represent the average cost to students rather than the average charge by institutions.

NASFAA believes that the primary unintended consequence of underfunding of the Pell Grant Program, combined with large increases in college costs, has been to cause many students to rely on loans to finance their education. In far too many cases, these are lower-income students who should not be assuming large debts. Aid administrators are forced to provide increasing numbers of very needy students at the start of their academic careers with not only a Perkins Loan, but a maximum Stafford Loan as well. The result is that some of these higher need students are simply choosing not to pursue postsecondary education, or are becoming so indebted earlier in their undergraduate degrees that it is affecting their education and career choices and decisions to consider graduate studies.

Research has also shown loans to be negatively associated with incentives to encourage low-income minority students to pursue higher education. Therefore, today, when the percentage of loans is increasing as a part of a student's overall financial aid package, it is not surprising that the overall percentage of minority postsecondary school enrollment is declining during a time in which the percentage of minority high school graduates is increasing.

As originally legislated, the Guaranteed Student Loan Program was designed to be used by middle-income families and their children, while the grant programs were targeted to lower-income families and students. In a situation of too few grant dollars necessitating large loan repayment burdens, it should not surprise anyone that student loan default rates and associated costs would increase to alarmingly high levels. Obviously, these costs show up not only to taxpayers, but to students who must live with a poor mark on their credit record and the possibility of not being able to pursue a postsecondary education.

If we hope to provide all of our citizens with an opportunity to obtain the fullest measure of education that will enable them to participate equally within our society, then it is essential that we restructure the Pell Grant Program to insure adequate and predictable funding from year to year. To help insure this is accomplished, we propose that the Pell Grant maximum award be funded at $4,400 for the 1992-93 award year, and then automatically indexed to rise at least $200 each year thereafter, but not less than the Consumer Price Index.

Our reason for establishing the maximum award at $4,400 is an attempt to bring it back in line with where it was following the passage of the Middle Income Student Assistance Act of 1978. In the first award year following that Act, the maximum Pell Grant was $1,800. Therefore, had the maximum award been indexed in such a manner at that time, increasing it by a modest $200 per year, we would have a $4,200 maximum award for the upcoming 1991-92 award year as opposed to a $2,400 maximum award, and a $4,400 maximum for the 1992-93 award year. Further, the policy goal of the Pell Grant Program is that it should cover up to 60% of a student's cost-of-attendance. Our projections suggest that the average annual cost at a four-year public college in 1992-93 will be $7,400. Therefore, 60 percent of that cost would be $4,440. Further, we have proposed legislation which would make the Pell Grant Program an entitlement, thereby giving assurance to current and future generations of students that they can count on the Pell Grant Program to be the foundation program that it must be.

NASFAA believes that raising the Pell Grant maximums to the levels we recommend, and maintaining a commitment to funding these authorized maximum awards, will greatly decrease the utilization of loans by low-income students. Such a policy change cannot help but alleviate student loan default problems for individual students, lenders and guaranty agencies while decreasing default costs to the federal government and taxpayers. Further, we believe that making the program an entitlement will provide a certainty of opportunity for American students and allow them to prepare properly for a postsecondary education knowing that the funds they need will be there.

In closing let me say that NASFAA recognizes the budgetary challenges facing this Budget Committee and the Congress in the coming years. If this country is to remain on sound financial footing, then some tough spending choices will certainly have to be made. NASFAA submits, however, that to continue to allow the Pell Grant and other federal student grant programs to erode is counterproductive to the future economic goals of this Nation. I look forward to working with you and other members of Congress to continue to help this Nation's students attend postsecondary education and become productive, contributing citizens.

Thank you for this opportunity to submit testimony for the record.

[Whereupon, at 12:20 p.m., the Committee adjourned.]

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